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THE AMERICAN BUSINESS MANUAL

A COMPLETE GUIDE TO MODERN SYSTEMS AND PRACTISE

EDITED BY

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VOLUME ONE

ORGANIZATION

WITH INTRODUCTION BY

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CONTENTS

PAGE

PREFACE 5

INTRODUCTION 9
Business Ideals, by A. Lowes Dickinson

I. ORGANIZING A BUSINESS 23

II. PARTNERSHIPS 33
1. Definition and Classification
2. Special Types of Partners
3. Formation of a Partnership
4. Continuance, Withdrawal, and Dissolution

III. CORPORATIONS 67
1. Advantages and Disadvantages
2. Procedure
3. Organization
4. Business Combinations, or Trusts

IV. FINANCE 109
1. What Constitutes Capital
2. Subscribed Capital
3. Borrowed Funds
4. Negotiable Instruments
5. Importance of Working Capital

V. DEPARTMENTAL SUPERVISION 175
1. Importance and Methods
2. Factory Management
3. System for a Wholesale Business
4. System for a Retail Business

PAGE

VI. Office System and Management 211
1. The Office as a Whole
2. Purchasing Department
3. Advertising Department
4. Sales Department
5. Credit Department.
6. Collection Department
7. Traffic Department
8. Order Department
9. Accounting Department
10. Correspondence Department

VII. Equipment and Labor-Saving Devices . . . 259
1. The Tools of Business
2. Calculating Machines
3. Writing Machines
4. Duplicating Devices
5. Recording Devices
6. Loose-Leaf, Card, and Filing Devices

VIII. Accounting 309
1. Theory of Accounts
2. Bookkeeping
3. Systems in Vogue
4. Internal Audits

IX. Taxation and Insurance 353
1. Forms of Taxation
2. Insurance

PREFACE

In preparing this new business manual the publishers have had, from the outset, a definite object in view—which is to treat every essential phase of business activity in comprehensive yet convenient form, for easy reference by the average reader. No other set of volumes on this subject, at once so compact and systematic, has hitherto been published, and for this reason we feel confident that it will meet the approval of the wide audience to which it is directed. We have kept constantly in mind during its compilation the thousands of business men, young and old, who are confronted daily by important problems—the clerk behind the counter, the bookkeeper in his office, the salesman on the road, the agent, the contractor, the merchant, the manufacturer—in a word, employees and employers in every field of enterprise. The clerk wishes to know how he can engage in business for himself; the salesman, how he can increase his selling ability; the bookkeeper, how he can save useless labor and increase his efficiency; the purchasing agent, how he can procure goods on the most favorable terms; the merchant or manufacturer, how he can increase or safeguard his business.

In a word, each and all now realize that the conduct of business is no haphazard, hit-or-miss affair, but a clearly defined system. Indeed, it has gradually evolved into an exact science, and the men who do not realize this fact are dropping behind in the race. Statistics show that ninety per cent of all the men who engage in business do not continue. Only ten per cent succeed. How much greater would be the chances of success if all should become conversant with its fundamental rules! The publi-

cation of a set of volumes of this character is intended to meet this precise need.

As we have stated, this work differs from all other business libraries in being the first systematic survey of the subject in convenient form. There are multitudes of law books which precisely set forth the bounds and definitions of every branch of business as they arise; and there are, likewise, weighty business encyclopedias and bulky volumes filled with long papers on isolated topics. *But there has been to date no work which would give the reader a concise view of each subject in simple terms, arranged in order of reading as the business itself would naturally develop.* This is exactly the book we have tried to produce.

Let us suppose, for example, that two men decide to engage in business together. Their first problem would be, how to organize their business. Shall they form a partnership, or incorporate? What are the advantages and disadvantages of each plan? If they incorporate, shall it be in their own State, or in another whose laws extend other privileges? Once organized, how about the management and conduct of affairs? What are the best methods of buying, selling, advertising, collecting, and office management? What is the soundest method of finance?

These are but a few of the pertinent questions which they would have to answer, one after another, as they arose. And this is the logical working plan which we have followed in the present convenient library. The reader will note that the first volume is entitled "Organization," and here are discussed the fundamental rules which underlie the creating of a business, the chief topics being Partnerships, Corporations, Finance, Departmental Supervision, Office System, Accounting, and Labor-saving Devices.

The second volume proceeds to the actual conduct of the business, "Buying, Manufacturing, and Selling," including such allied subjects as Purchasing and Stores, Producing Costs, Selling Costs, Advertising, and Selling.

The third volume, entitled "Administration," con-

cludes with Credits, Collections, Interest, Real Estate, Shipping, Auditing, Statements, Receiverships, Profits, and the like. Thus any subject is easily located, and being in its proper context is readily understood.

While authorities are closely adhered to, and the manual has a solid substratum of law, we have carefully avoided making it technical. Instead, it is addressed at all times to the average reader, answering each of his many questions in the most direct terms. Presented in this manner, the subject of business is never dry and uninteresting. On the contrary, it will be found to have a positive interest of its own. The "natural-born" business man gets a great deal more pleasure out of his business than that of mere money-getting. He feels all the thrill and pride of a mariner who guides his ship over treacherous seas and against adverse winds to a safe harbor, or outdistances some rival skipper in a race.

And what clerk or salesman does not dream of the day not far distant when he can have a business of his own? His whole idea is to save enough capital, or form an advantageous partnership which will enable him to embark upon these commercial seas for himself. The why and how of this venture he may see but dimly, but the prospect is fascinating nevertheless. We have here endeavored to set before him both the why and how, but without robbing the subject of that large interest which it holds by common right.

INTRODUCTION

BUSINESS IDEALS

By A. Lowes Dickinson

In a country of great wealth and wonderful possibilities for the material well-being of a much larger population than it even now contains, it is a matter for regret that the scramble for wealth has produced a competition quite as fierce and even more relentless than in the thickly populated countries of the Old World where opportunities for the advancement of individuals are far more limited. It would seem that this condition must be attributed largely to the example of the early pioneers in the development of the country, who, while not altogether selfish in their aims, undoubtedly in many cases put their own gain first and the good of the country a somewhat poor second. There is no need now to analyze or discuss the methods by which these men, while admittedly conferring benefits upon their country, were also enabled to acquire enormous personal fortunes, for these methods are now well known and understood, and few could be found to excuse them. They resulted in the adoption of similar and even worse methods by other so-called financiers who accumulated great wealth by questionable methods, without any shadow of excuse or pretense of conferring any benefit upon their country.

This old, and happily obsolete, condition is only now recalled because of the influence which it has had upon the business ideals of a large majority of the community, who have so far imitated the spirit of a former generation as to setting up as the main object of business the acqui-

sition of wealth; and while this is coupled with a certain standard of honesty probably far greater than that of the old pioneers, it is only maintained as long and as far as it does not interfere with the main object of acquisition. There is much truth even now in the old quoted saying of a father, "Make money, my son, honestly if you can, but make it," and the prevalence of this principle thus baldly expressed justifies some examination of its results and some consideration of the methods by which it may be combated and gradually replaced by a higher standard, based upon striving all the time toward an ideal conception of what business should be.

Before setting forth any such ideal it will be well to consider the now-existing defects in business ideals which should be condemned by all thinking men. These may well be divided in accordance with their relation to three main subjects, viz:—

THE NATURE OF THE BUSINESS;
THE CONDUCT OF THE PROPRIETOR;
THE CONDUCT OF THE EMPLOYEES;

and these will be considered each in their turn.

Every one is aware that there are classes of business which make no pretense of conforming to any standards of morality and decency, and which have rightly for that reason been forbidden by law; but the fact that many such flourish openly in spite of, and even with the connivance of, the officers of the law shows only too clearly that with a considerable class mere gain without any regard to, and even in open defiance of, the common good is still the ruling motive. At the other end of the scale there are classes of business which are initiated and carried on with the highest regard for the public good and with little or no hope of gain. Their number is regrettably small in proportion to the total, but their existence even in such small numbers is a great force for good, and it may confidently be hoped that their leaven will gradually sink deeper and deeper into the mass, carrying with it an increasingly wholesome influence.

Between these two extremes comes the great mass of the business of the country, shading downward in its ideals to a minimum at some point far too near the lowest level and then again diminishing to that level. The human animal is at bottom a creature of his desires tempered only by generations of effort toward improvement on the part of its moral leaders; and both past history and present conditions show that it is easier on the whole to succeed in an appeal to man's lowest instincts than to the high moral conscience, which, whether developed or undeveloped, germinates in the secret recesses of even the worst specimens. A few instances only, taken from the immediate present, are sufficient to justify this conclusion. The great success gained in recent years by cheap magazines of little or no merit either literary, artistic or educational; the fortunes made by newspaper owners of the class recently so well condemned by a high public official; the mass of new novels put forth by publishing houses, the majority of which are hardly worthy of the meanest intelligence, even if they do not appeal to lower tastes; the poor class of entertainments provided in the majority of the theaters drawing full houses to laugh at their feeble foolery or their risque jokes, while the few providing decent, well-written, and well-acted plays of artistic or educational value frequently perform to half empty houses; the crowds that will flock to a motor race, an aviation meet, or a prize-fight; all these and many more instances that might be given go to show that immense gains can still be made out of those classes of business that pander to the lowest nature of man. Such must and will undoubtedly continue to exist in some form as long as the human race continues, in spite of the efforts toward improvement of the best natures in every generation, and the fair measure of success undoubtedly attained in the forward march.

Whatever the nature of a business, its proprietors incur heavy responsibilities to the community, whether they be actual owners of a purely private concern or stockholders in a corporation. The responsibilities of

a stockholder are necessarily more limited as he has no direct voice in the management; but he can at least decline to hold stock in a concern carrying on a business either in itself or by reason of its methods of operation detrimental to moral progress. A believer in strict temperance or prohibition can hardly, with justice to his convictions, hold stock in a brewery or a whisky distillery; a member of a universal peace society should not be a stockholder in a corporation making munitions of war; and, more generally, a man who holds strong views on corruption should decline to remain a stockholder and wink at such corruption where it is known to exist in a corporation in which he is interested. The immediate responsibilities of the owner of a private business are much greater, inasmuch as he determines on the kind of business; directs its policy; and takes the profits of its operations. If the nature of the business is detrimental to the highest interests of the community, he alone can change it; if it is carried on by dishonest methods such as exaggerating the quality of its products, charging exorbitant prices, delivering short value, making promises which can not be performed, or paying secret commissions to induce sales, he alone is responsible to the community and has the power of improvement or remedy.

Salaried employees, in addition to taking their share in the responsibilities of the owner, have the added duty of being faithful to him. Acceptance of secret commissions or secret profits; the use of their positions to further their own rather than their employer's interests; waste or improper employment of the time for which their employer pays; these are only a few of the evils which are prevalent; and from time to time the public are startled into momentary indignation by the few cases in which the offenders, often men in receipt of such large salaries as should put them beyond temptation, are brought to book and figure in the lime-light of the courts of justice. This neglect of the interests of employers extends even to that class of experienced and successful men of affairs who guide the destinies of corporations as

Directors. In such positions they are morally if not legally trustees for the stockholders, by whom they are nominally elected and by whom they are remunerated for their services. Too often this moral obligation is ignored and they use their positions for their own immediate or prospective benefit, justification for such action being often attempted by the claim that they are large stockholders themselves. The principle involved in this attitude is perhaps best expressed in the reputed words of a great financier now dead, who, on joining the board of a certain large corporation, stated that he did so "to look after my interests," those of the stockholders as a whole being completely ignored. The more gross evils resulting from such a claim are found in the use of early information acquired in their positions of trust to buy or sell stock for their own advantage; in the dissemination of false information with the object of benefiting themselves by influencing the stock market, or inducing minority stockholders to sacrifice their holdings; and in molding the policies of one company so as to benefit some other in which they have a larger or more valuable interest.

It would not be fair or just to call attention to the worst evils affecting the business community, without at the same time testifying to the improvement that has taken place during the last decade. The conscience of the country appears at last to have awakened from its long sleep, aroused by the efforts of an able and honest body of men who both in politics and business have given their time and their money to fight for high ideals. The fight has been carried on under difficulties and subject to abuse from many of those whose base money interests have been or may be prejudicially affected; but it has had the assistance of some of the ablest business men, who know from experience as well as conviction that in the long run honesty is the best policy; and that a clean business under clean management will eventually attain the greatest measure of success. The way is long and the fight is hard, but, while a vast amount still remains to be done, real progress has been made.

If some stress has here been laid upon the evils of the

present condition, it has been only to pave the way for the consideration of a business ideal which, while it can never be attained in the abstract, may yet serve as a light to illumine the path of the younger generation and to point out to them the true road of improvement.

On the moral side it may be stated, without much fear of contradiction, that the first essential of an ideal business should be, not its money-making capacity, but its usefulness to the community in the highest sense of the word. It should be a business which is necessary for the upward development of the human race; not pandering to the lower tastes of the uneducated masses, but striving always to give something better and more elevating, whether it be manufacture, transportation, art, or amusement. A fair return on the investment is the secondary but almost equally necessary element, as this alone will determine the equality of supply and demand. If all business which pandered to or created the lowest demands of the community were abandoned, a demand would arise for the next highest to fill the gap and so continued progress would be possible.

Such a business should be carried on fairly and honestly; the profits should be equitably and reasonably commensurate to the capital employed and the risk involved; and should be combined with the best possible service to the community. Deceitful descriptions; misleading advertisements; shoddy workmanship; secret commissions; unfair competition and indiscriminate price cutting to a level below that which would give a fair remuneration should be unknown. All such methods are now designed and used merely to get the better of some one else, while in an ideal condition competition should be confined solely to the effort to give the best service to the community at a fair and reasonable price.

Employees should be well treated and liberally remunerated. Profits should be fairly divided between capital and labor with due regard to the necessity of a minimum living wage and to the consequent greater security in the remuneration of labor. As between different

classes of labor a more equitable distribution of profits would result from an increase in the supply of the higher classes, due to the greater efforts for improvement which would be made by the lower classes under an ideal system. The present disproportion between the wages paid for organizing and administrative ability and for other kinds of clerical and manual labor would also be similarly remedied.

Such an ideal is obviously entirely inconsistent with actual conditions, and probably always will be; but as long as progress continues it should be in this direction; and there are, day by day, in every business, opportunities of making some small step in advance, if a real honest intention to strive for an ideal exists.

Concurrently with the moral progress thus outlined, comes the necessity for material progress in order to produce the best results and to show those results in such form as will disclose the inmost secrets of the business to those interested and to the community. For there can be little doubt that the best remedy for abuses is the fullest publicity which will rouse some small grains of moral sense from the depths of the soul of the most callous and hardened offender. Thackeray has well said that it is not his wrongful act that offends a man, but the discovery of that fact; and if no concealment were possible little or no evil could exist.

On the material side, then, there comes first organization; a leader honest and enthusiastic, of great ability and thoroughly familiar with every detail of his business; holding as his guide in all his actions all the best that is known; supported by carefully selected heads of department of equal ability although necessarily of less experience than himself, but animated by all his ideals and determined to follow out his policies honestly and loyally and with a sole idea to the good of the business, and no side glance toward the attainment of private ends. Specializing should be avoided as far as possible, each man looking forward to the time when he may be called upon to fill the highest post, and endeavoring to fit himself for that position by mastering the details of

each department as he passes through it. Even in the lowest ranks no one should be content to become a mere machine, but should strive as long as life and health remain to fit himself always for a higher position; and all should be assured that if, without fault of their own and in spite of their earnest endeavors, they fall out by the way the business will take care of them and assist their savings with a fair scheme of profit-sharing and a contributory pension scheme insuring all a comfortable old age, so that each as he draws to the close of a useful and honorable life may feel that "From labor there shall come forth rest."

Equally important with the actual organization and operation of a business are the methods by which the results of such operations are recorded and made available in a form easily understood; and ideals are here also desirable, particularly in view of the lamentable failures that occur every day. To enable the managers to confine charges to a reasonable profit they must first know the costs of production and these costs must be based upon correct theoretical principles. The absence in the majority of cases of any sound and proper system of costs is undoubtedly the main cause of the senseless competition that has existed and still exists, and which has conduced so much to the formation of the so-called trusts and pools, both legal and illegal. Ideals in business can never be attained until accurate costs are known in every business, for only then is it possible to determine what is a reasonable and fair profit. While therefore there are many other dangerous pitfalls to avoid and passes to cross on the road to the ideal beacon, this one of absence of costs is by no means the least dangerous or the least important.

A proper analytical summary of all business receipts and expenses honestly and carefully prepared is another necessary element. Such a statement available for all interested and made public would have entirely prevented even the barefaced cases of graft, whether "honest" or dishonest, which have recently been exposed; for such graft lives in secret places and is impossible in the full

light of day; even the worst offender is afraid to be found out.

And lastly come the statements of results submitted to proprietors or stockholders fully available to the community in all their detail; by which the final seal is put upon the usefulness of the business, the honesty and justice of its operations, the reasonableness of its profits and the fairness of their distribution. Where all are animated by the ideals set forth, all are giving equal publicity, all are in fact carrying on the ideal business, no one can suffer by such publicity, and the community is immensely the gainer.

An ideal in business can not be attained without an ideal preparation for those who carry it on. In spite of the strides made in recent years, the average level of ability and education remains regrettably low. In the last decade business has rapidly expanded and the population has grown correspondingly, but everywhere is the same increasing demand for competent men to fill not merely the highest, but the intermediate and lower positions.

It would seem that, however far below the ideal business may be, the method of preparing those who are to carry it on is even lower. This seems due partly to the want of proper education and partly to the absence of any ideal on the part of the masses beyond that of earning their living, which again is due to the neglect to educate them to the necessity of such an ideal. Improvements in education have probably at least kept pace with the moral if not with the material progress of the country, but there are still far too large numbers of the younger generation who have little or no knowledge of anything that will help them on in life and still less desire to work hard and get on. The existence of so many kinds of business which, breaking the first canon of the ideal here set forth, pander to the lowest desires of the people is undoubtedly largely responsible for this condition. An even greater cause experience shows to be defects in education which, while giving an elementary knowledge of certain very necessary matters, does not teach the

pupils how to learn for themselves, nor does it set before them any clear idea that they have duties to perform towards the community, even if it be only to remedy the defects which have led to their present environment. They should have an ideal set before them of honesty and industry; of ambition and perseverance, never content to merely do the minimum that is set before them, but always to do better than their predecessors; to keep progress in knowledge, in morals, in industry, ever before them; and so to render themselves ever more and more fit to mount along the rough and dangerous road that leads to the ideal.

Starting out from school with such principles engrained, they would be ready for the more practical training which is equally necessary, and for which the facilities are still far short of what the demand should be. Twenty years ago, hardly any business training was available except that afforded by entering some office at an early age and making a gradual progress upward from the lowest grade. In the present day, books have been written and classes are held on the theories of every kind of business, and while much remains to be done to make those books and classes available for the masses of the people, many more might avail themselves of the facilities that exist if they knew of their existence and cared to do so.

A thoroughly practical and theoretical training in business principles and methods is essential for any business or any profession. The younger the age at which this general knowledge is acquired, the sooner is it possible to determine on the special line to be followed, and to begin a complete practical study of that line from the bottom upward. This should be a life's work; for in an ideal condition there will be no royal road to success. Influence will no longer assist and the only road will be hard work combined with ability, integrity, perseverance, and a determination to succeed in spite of all difficulties. The road is long even in the ideal condition, but surely it is better to attempt it and fall by the way than to settle down to a humdrum life in an inferior position, con-

tented to get through the minimum amount of work in the stipulated time, draw a minimum salary, and perhaps spend it in a maximum of frivolities which, as they can not really benefit, only lead to deterioration.

And yet this is the life led by large numbers in receipt of small or moderate or even large salaries who might, while they have youth and health, be devoting all their time and energy to qualifying themselves to fill some of the many better positions, where the demand exceeds the supply.

At the other end of the scale are the men of great wealth, inherited or acquired, who have had opportunities in education and training denied to the masses; and who yet in far too many cases waste time and money on even more useless frivolities and extravagances, and neglect the golden opportunities they have inherited of devoting their ability, time, and money to advancing along the road to the ideal the many to whom such advantages have been denied.

The hope for the future lies in the gradual disappearance of the drones at both ends of the scale, whether they are so from misfortune or choice; urged by the new cry for honest and intelligent progress, let them take their places in the ranks and move forward along the upward path, helping each other toward the ideal always in sight before them.

I

ORGANIZING A BUSINESS

Some Pointed Paragraphs—Location of a Business—1. Proximity to Raw Material—2. Proximity to Coal or Water-power—3. Suitability of Climate—4. Proximity to Markets—5. Cheap and Abundant Labor—Purposes and Advantages of a Partnership—A Fundamental Rule—Points to be Considered—Capital *vs.* Experience.

I

ORGANIZING A BUSINESS

SOME years ago three boys went to Chicago. They were practically penniless, but they had the most valuable assets any young man could possess: a combination of good health, upright principles, courage and initiative. Consequently they found very little difficulty in securing positions, which while paying small wages at the outset gave them an opportunity to advance. Several years went by, with each of the young men performing his particular duties in the same dry goods store and advancing slowly. One day, however, they determined to form a partnership and go into business for themselves. So far as money was concerned, they had little to show for their years of hard work, but they had something that was better than money, since to their original assets they had added the factor of experience.

It was a hard struggle at first, for money and trade were no easier to get then than in these days. Again and again they encountered obstacles which would have discouraged less courageous men, but they were born fighters—all men are fighters who are inspired with an ardent desire to win—and they fought the battles of the business world with perfect confidence that nothing could defeat them. Success was achieved because they made no allowance for anything else.

The names of these men were Marshall Field, Potter Palmer and Levi Z. Leiter, and the story of their victory is the history of the organization and development of one of the greatest business enterprises in the United States. Starting with practically no other capital than the belief that the purchasing public would be glad to buy goods from a firm which treated everybody honestly, they won success. They would never have succeeded,

however, had it not been for the fact that they had a well-defined plan of action, which each one was inspired to see realized. With such an inspiration, they could devote themselves to this business with an enthusiasm that made failure practically impossible.

Some Pointed Paragraphs.—A business philosopher recently said: The man who does not get outside his business every night and take a look at it is risking about as much as he would if he never balanced his books. Business is the romance of this country and this age; and when you come to think of it, an impulse which opens waste lands, employs armies of men, makes food, clothes and medicine out of rubbish, and accomplishes the impossible every year in a new way, is about as romantic as the Arabian Nights.

There are times when old traditions are money in one's till, and there are times when they are not; the wise business man is he who knows a genuine antique when he sees it.

If any way could be discovered to make two and two amount to five the inventor would be a millionaire; and that is measurably what happens when a new short cut to business methods is evolved. When four hours do the work of five the world is better off.

Location of a Business.—The first problem which meets the organizers of a business is, where shall it be located? If it is a retail or wholesale business, that general term known as "market" must be carefully discussed. If a factory, several other things which are equally important.

As a general rule a manufacturing plant arranges itself about a definite central area where the raw materials of production can be most readily obtained or assembled, or where the markets are largest. There are other factors which determine the location of the seat of production, and it is well to examine all of them before putting capital into a manufacturing plant.

Briefly the factors to be considered are (1) Proximity to raw materials; (2) Proximity to power agents, coal

or water; (3) Suitability of climate; (4) Proximity to markets; (5) Cheap and abundant labor.

1. **Proximity to Raw Material.**—The location of the raw material necessary in a business has always been an important influence in deciding the building site of a factory, especially in those factories where large quantities of raw material are transformed into finished articles and the bulk being vastly reduced. The freight charges, which are higher on finished goods than on raw material, are usually compensated for by the decrease in bulk. In cases where the gain is enough to make it worth while, a manufacturing company will cling to the location of its raw material, though such industries are usually those in which the increase of value in transforming raw material is not great. There is a tendency for great steel mills to seek the iron fields; flour mills to go where wheat is grown; cotton to follow the cotton field; but this is not a rule that can be followed with any degree of certainty, and more and more industries will follow the currents of population, finding a resting-place in those areas where population is greatest and the markets largest. In some industries, however, such as cane-sugar making and salmon-canning operations can be conducted nowhere else than on the field of source of material.

2. **Proximity to Coal, or Water-power.**—This question can not be considered by itself alone. It confronts the manufacturer with the problem—whether to transport fuel to the field of raw material, or raw material to the coal field or water-power source. It is rarely that both are united in one area, and usually the manufacturing plant is built near the coal field or source of water-power. An outstanding example of this is the fact that the steel and iron trade of the United States is situated in Pittsburg, which produces nearly half the steel sold in the country. Now, Pittsburg is about a thousand miles away from iron fields, most of its iron ore coming from the iron mines of Lake Superior. One of the reasons of

the location of this immense industry is that Pittsburg is built upon a coal bed. Near by is the Connellsville coke region producing the finest and best coke used for iron smelting in steel manufacture. Here we have one element, but there is another, that of its proximity to markets, which will be treated under its own head.

An example of proximity to raw material is that of a company formed a few years ago to establish iron ore works at Lake Superior, where ore itself was plentiful. Several millions of dollars were expended upon the plant before it was found that the iron could not be obtained profitably. The result was a complete loss of all the money invested.

The supply of power also has an important bearing upon location. Power is derived from coal used to raise steam or from water applied direct or transformed into electricity. So far industries have sought the coal field, but the improvements in the long-distance transmission of electric power derived from waterfall turbines will have a decided influence upon the settlement of this question in the future. An industry will always seek the cheapest power available in production and most of the cotton mills are now being built in the South where water power is plentiful and cheap.

3. **Suitability of Climate.**—Climate has often a decisive influence upon the location of an industrial concern. For example, it would hardly seem prudent to plant a steel or iron industry in a hot climate. In Alabama, the combination of heat used in these two industries and the natural warm climate is too much for white men and the works are run with negro labor. In tobacco manufacture, the flavor is impaired by damp atmosphere, consequently a dry climate is to be preferred. On the other hand, spinning and weaving industries are better accomplished in moist atmospheres, the fibers of the materials being better manipulated and woven together in this state, and it is common to induce artificial humidity in mills during warm weather.

4. Proximity to Markets.—In speaking of Pittsburg above, mention was made of its importance as a market. In its case, that was probably a most important factor in its becoming the location of the steel industry; for Pittsburg is situated almost midway between the great markets of the East and West. The steel plant erected by the United States Steel Corporation at Gary near Chicago is midway between fuel and raw material sources, and has settled in the center of what will become the greatest market of the future. Again, while cotton is grown here, there is urgent reason that the finished product be made in England in one of the large market centers such as Liverpool or Manchester. Similarly with flour. Flour to be sold in England will be transported as grain and milled in Liverpool, Manchester, or London. It pays for flour is rising in price, while cost of transportation is falling.

5. Cheap and Abundant Labor.—For the large enterprise this is not a problem of any difficulty, though in some cases it largely influences location. One may erect an extensive plant and be unable to find sufficient or cheap enough labor to keep it going. Principally is this the case in the cotton mills of Carolina, but this is being gradually overcome. However, for the enterprise in which unskilled labor is required there need never be any doubt. Every ship which comes from Europe pours an endless supply of labor into the country. Steel mills and coal mines depend almost entirely upon this class of labor, and it is natural that the immigrant should seek the most open, if not the best market for his services. The city offers considerable advantages in the way of labor supply. The modern tendency is all for city life, and a factory manager takes advantage of this fact, for he knows that he can always fill the place of any employee. Still there is always competition to make wages go up, while opportunities for forming unions are present, and employees have chances of forming combinations opposed to the capitalist. Certain far-seeing manufacturers have discovered that the existence in a town of a number of

industries suitable only for men, such as iron and steel working, brings into the town a relatively large population of women and girls who are idle. An industry must be created to take advantage of this latent labor supply, and often a silk spinning or some such textile factory is opened. The labor is already upon the spot waiting to be employed.

The necessity of establishing a business so that it may be in correct relation to all of the above factors is becoming more and more a problem of exceeding difficulty; and even then the question of localization is only one of the many which beset the manufacturer.

Purposes and Advantages of a Partnership.—A well-conducted business requires the constant attention of an executive, and while the sole proprietor may secure the services of managers and assistants who serve him well, yet the instances are rare where the same success can be obtained as in the case of a partnership composed of two or more individuals who not only divide the responsibilities of an enterprise among them, but what is more important, give it the personal attention it demands.

In this day of keen competition a man practically wears himself out in attempting to keep up the pace required in order to achieve success, and absence on account of illness or a vacation period to prevent illness is almost inevitable. Then, too, one who is obliged to remain in the same place and at the same desk all the time becomes narrow and falls into a rut, which in business life usually spells failure.

Therefore, whenever possible the man starting in business should seriously consider the advisability of associating himself with others situated as nearly in his own position as possible. At first thought many young men just starting in business life, usually because they think they see an opening, feel reluctant to assume the risk of having to divide the prospective profits, but this argument, while it should always be considered, must be weighed with all the reasons pro and con which bear on the subject.

A Fundamental Rule.—It may be stated as a fundamental rule in business life that a monetary interest is the most vital cause of that intelligent procedure which leads to success. The manager or the clerk can be depended on in most cases for an honest application to his duties, but his interest can not be depended on for twenty-four hours a day throughout the year, and he can not be blamed for a more or less routine interest in the business. The proprietors, on the other hand, can never afford to let up on the application of new ideas and new methods. They must watch their competitors, and as it would be fatal always to follow others, they must keep sufficiently abreast of the world's markets and changes to anticipate conditions at times and originate ideas and methods of their own.

Temperament naturally plays an important part in these requisites, and this becomes an additional reason for the association of two or more men in order to bring together qualities which are as a rule not found in one.

Points to be Considered.—A few of these different qualities will be mentioned in order to illustrate the suggestion, but they can be multiplied almost indefinitely, and it is obvious that some hours of thought along this line beforehand will be worth months of regret afterward. It is frequently discovered that an enterprise lacks an important element which is found to be lacking only after a crisis has arisen and when it is too late to remedy the deficiency.

In a trading concern, for instance, there should be a good buyer as well as a good salesman. Very often these qualities are not found together. So, too, in a manufacturing enterprise there must be an executive who is an expert on raw materials and one who knows how to deal with labor.

If a manufacturer is forced to depend on the judgment of others with respect to points like these he may find himself in tight places or worse.

In a professional partnership it is almost a necessity to have a partner whose professional knowledge is above

the average, because many young men just out of professional schools think more of the possible clients whom they may hold, than upon serving them just a little better than any one else. The ideal combination is a thorough student who loves hard work associated with what is known as a good "mixer," who attracts clients and who can keep them satisfied with the help of his partner.

Then, too, religion and politics must be considered. Prejudice and sentiment are and always have been strong factors in business life, and while a man should never sacrifice principles to pecuniary gain, it must be remembered that strong and lasting friendships exist between men who are entirely unlike in almost every respect—religion and politics included.

This factor exists in some of the most successful partnerships in existence to-day, and any one who contemplates starting in business for himself will do well to look around particularly in connection with the trade or industry he expects to follow, and observe whether or not the leaders in his chosen field have observed the points here considered. Special consideration should be given where the partners are not only different in temperament but where the capital subscribed is unequal.

Capital vs. Experience.—A very large number of partnerships exist where the only reason for forming them is that one man has some money and another wants a chance to hazard it in a given field. So many of these have been utter failures that the proverb has arisen: "A furnished the money, and B the experience; now A has the experience and B the money."

Unless there is a full consideration of all the points just raised it is a serious mistake not only for the man with the money but for the man with the experience to form a partnership.

The former, perhaps, is in the best position after the failure, for he may have learned a valuable lesson, but the latter has used up his energy and lost his reputation which may be hard to regain.

II

PARTNERSHIPS

1. Definition and Classification

Definition—Primary Requirements—Classification—1. *Ordinary Partnerships*—Early Doctrine of Partnership—Modern Doctrine—The Question of Liability—Personal Relations of Partners—2. *Limited Partnerships*—Definition—Distinctive Feature—Varying State Laws—The Firm Name—Public Notice—The Term "Limited" in Firm Name—Advantages—3. *Joint Stock Companies*—Points of Difference and Advantage—Chief Disadvantage—The Statutory Joint Stock Company—Partnership Associations—Mining Partnerships—Co-ownerships and Joint Tenancy.

2. Special Types of Partners

Minors—Married Women—Aliens—Insane Persons.

3. Formation of a Partnership

Procedure Involved—Agreements—Notice of Copartnership—Articles of Copartnership—Notice of Limited Copartnership—The Common Law—The Firm Name—Partnership Agreements—Fourteen Fundamental Rules.

4. Continuance, Withdrawal, and Dissolution

Agreement for Continuance—Withdrawal of a Partner—Notice of Withdrawal—Dissolution—Notice of Dissolution—Agreement for Dissolution—Duties of Liquidating Partner.

II

PARTNERSHIPS

1. Definition and Classification

A PARTNERSHIP has been defined as "an association of two or more persons for the purpose of carrying on business together and dividing its profits between them." (*Civ. Code, Cal.* 1901.) But this technical definition, as well as many others advanced by different authorities, is subject to criticism, inasmuch as it but approximately indicates the various relations which in the eyes of the law constitute a partnership.

The above definition outlines a comparatively simple condition of affairs, involving no special obligation upon any of the parties to the agreement; when in reality the different relationships incurred, both among the partners themselves and outside persons, are of far-reaching consequence.

Other definitions of a partnership refer to the sharing of profits as the distinguishing feature of its character. To a certain extent this may be true, but it is also a fact that persons may participate in the profits of a business by virtue of some entirely different relation. As the laws vary considerably in different States, it is practically impossible to formulate a set definition which would cover all conditions.

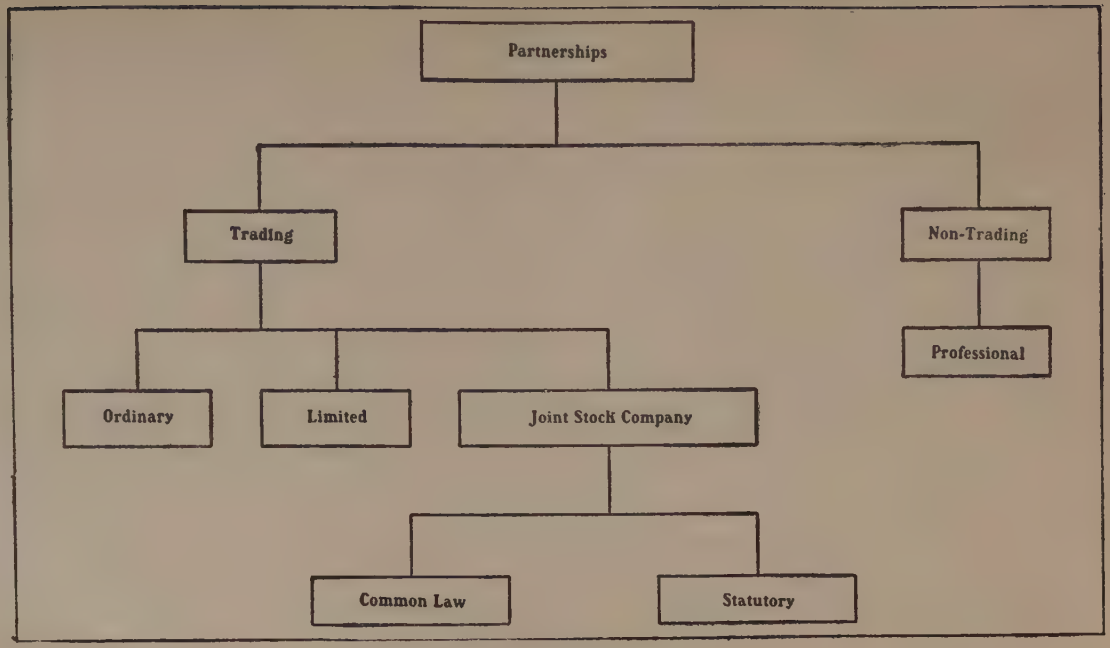
Primary Requirements.—The primary requirements in the formation of any partnership are (1) that the proposed business shall be of a legitimate character; and (2) that it shall be conducted to derive profit from the transactions in which it engages. The law very properly

refuses to recognize any agreement in reference to sharing the gains to be derived from robbery or other crime. Such organizations as clubs, religious or fraternal societies, although conducted and maintained by a number of associates, are not popularly recognized as partnerships. The members do not assume the liabilities of a partner, and the association itself is not conducted for monetary gain.

Classification.—All partnerships may be divided into two main classes, viz. *Non-Trading* and *Trading*. The former may be briefly summarized as including persons who form a partnership for the purpose of engaging in professional practise, such as architects, lawyers, doctors, accountants, and the like. The latter includes all business associations and ventures of every nature connected with buying, selling, publishing, mining, developing and the entire field of manufacturing, and mercantile pursuits.

A further classification based upon the character or extent of operation includes the following types:

Universal Partnerships, or those in which the different members agree to devote their entire property, time and ability for the benefit of the business and the mutual benefit of each other. To conform to such an agreement absolutely is possible only in theory, yet cases exist where for all practical purposes, such an agreement has been effective. An outstanding example of Universal Partnership is presented by the Settlement of Communists at Oneida, Madison County, N. Y. This community was first founded in 1847 and became highly successful, as a result of numerous manufactures and industries. A complex marriage system was in vogue until 1879 when the Church stepped in and put an end to it. The community then organized and a joint stock company was formed in 1881, and a cooperative plan followed in financial as well as domestic matters. Now there are some three hundred members, with property valued at over $2,000,000. Branches have been established at various places, and the experiment is probably one of the most successful communistic schemes on record.



TYPES OF PARTNERSHIPS

General Partnerships, in which the intention is to engage in all the various transactions usually met with in any particular line of business.

Special Partnerships, formed for the carrying through of some one particular transaction, as for instance the handling of a cargo of goods, or the exploitation of some patented contrivance.

The generally accepted classification, however, covering all kinds of business associations known as partnerships, falls under three main heads, as follows:

1. Ordinary Partnerships.
2. Limited Partnerships.
3. Joint Stock Companies.

1. Ordinary Partnerships.—What is known as an "ordinary" partnership may be formed without special provisions under the common law, such organizations being authorized by long continued usage. A minimum of formality is employed and though a preliminary contract of some description is essential, this contract even if merely implied is sufficient to give birth to the partnership relation. A written contract is at all times preferable in this as well as in any other connection, but unless it is prepared by a competent person, mistakes and confusion are apt to occur.

The mere statement that such and such is, or is not, the desire of the parties to an agreement does not necessarily create or avoid the partnership relation, which is determined according to the expressed intent of the agreement as a whole, and is unaffected by the import of any individual statement. Thus A and B after entering into partnership disagree. A claims that he thought the contract meant one thing. B claims that it reads altogether different to him. No amount of arguing will convince either party and they go to law. The law finds that the contract is so phrased as to admit of only one legal interpretation, and this interpretation holds, even though it may conflict with the ideas of both parties. Thus it will be seen that the utmost care is essential in preparing a document of this sort, and cases have occurred in which

the force of the agreement when passed upon by the court has proven entirely different from what was at first intended.

Early Doctrine of Partnership.—The creation of a partnership, therefore, implies the existence of a contract between its members; but under some conditions a person may be invested with the rights and privileges of partnership, or be held liable for its obligations, without his knowledge or desire, merely by entering into some relationship, the consequences of which were unknown to him. For example, an old law held that if one participated in the profits of a concern, such participation constituted him a *de facto* partner. The theory was that if one drew upon the profits of a company he was receiving money from the same fund to which the creditors of the firm looked for payment, and in consequence must be considered equally liable with the actual members of the firm.

This law in its operation was found extremely irksome and unsatisfactory, and resulted in a vast amount of litigation, until modern statutes rendered it a dead letter.

Modern Doctrine.—Under the modern doctrine of partnership, a more elastic and beneficial code of laws has gradually arisen. A person may now participate in the profits of a concern without assuming any of the liabilities of a partner, unless he actually is a partner, or has made it appear that he is such, either by his assent or neglect in denying the relationship. The following is a case of this kind:

A lends B $450, and undertakes to work in B's shoe store, in the afternoons. While he is there C comes in, and acts as though he supposes A to be a partner. A does not deny it. If C gives B credit then C can hold A liable as a partner.

Becoming a partner after this fashion is what is known as partnership by "estoppel," or a false "holding out," a reasonable reliance on which causes another to part with value. Whether one who has become a partner in

such manner shares in the profits, or not, does not affect his position so far as his liability to a third person is concerned. A question of this sort can not arise between the partners themselves, as it is reasonable to suppose that a person in business knows who his associates are. It can only come up between the said person and a third party.

This is often the result of carelessness rather than dishonesty. Perhaps the most common instance is where one partner severs his connection with the firm and fails to give sufficient notice that he is no longer connected with the firm. If the original firm name is still used by the remaining partners, the retiring member may be rendered liable for the firm's obligations even though a notice of dissolution has been published. To avoid this, a notice of retirement should be sent to every former creditor of the firm and particular pains be taken to insure the receipt by each creditor of said notice. The death of a partner, of course, terminates all such obligations. Express provisions are often made for the continued use of a firm name, notwithstanding changes in the firm itself, upon filing and publishing a certificate stating the names and residences of the members of the new firm.

The Question of Liability.—The matter of "holding out" is one of fact rather than of law, and if not done by a person himself, but by others without his knowledge or permission, he can not be held liable. Permission, however, might be express or implied, and this feature of the case would require thorough investigation. No one can be expected to know what use is being made of his name, but one is expected to do what any honest man would do, when he finds that he is being made a party to some dishonest practise.

The fact that the creditor may be cognizant of the actual condition of affairs has an important bearing on the liability of the person held out to be a partner. If it is proved that the creditor knew that a certain person was not a member of a firm at the time he extended

credit, despite statements to the contrary, he has no claim upon him whatever. For example, A forms a partnership and pays B a consideration for the use of his name, calling the concern A, B & Company. A of course receives all profits and is liable for all debts. A, B & Company deal with C. If C is told that B is not a partner, B is not liable to C as a firm creditor. But if C has not been told, then B is looked on and held as a partner.

It is now generally conceded that the person "holding out" is only responsible to those who have been misled in regard to his position in the firm, and who have extended credit to the concern on his account. This doctrine has been almost universally approved, and where the old law still holds it is due rather to the disinclination to change the existing state of affairs than to any inherent merit that it may possess. The introduction of the modern theory of partnership has practically put an end to the idea that sharing in the profits of a concern is a conclusive test of partnership.

In New York and Pennsylvania, where recourse is yet had to earlier authorities, test cases have caused some confusion. In New York some tendency to adopt the later doctrine has been noted. In Pennsylvania the faults of the old rule are modified to some extent by statutory regulations, but cases which do not fall under the exceptions are still decided according to the earlier doctrine, that any one who receives a share of the profits is held accountable for the losses as well. But, as before stated, this is an exception to the modern law.

Personal Relations of Partners.—As a partnership is essentially a personal relation, it should never be entered into without thorough knowledge of the character of the prospective partners. Persons are frequently admitted to partnership with less investigation than a security company would require for the bonding of an office boy. And yet a partner can withdraw or misapply the funds of a concern or bind it by contracts which may be ruinous. On the other hand, the admission of a person of

integrity into a concern is a valuable asset in itself apart from the amount of capital he may invest. If he is known to be a man of wealth the desirability of his presence is increased, for it is not so much the amount that he may invest as his financial standing that interests the public, since all his property may be subjected to discharging the obligations of a concern.

Ordinarily, sufficient information can be obtained regarding the financial standing of a prospective partner through the banks and commercial agencies, but this information may not be sufficient proof of his desirability. An adverse report, however, is almost invariably sufficient reason for refusing to admit any one into partnership.

Owing to the personal relation and intimate association usually existing between partners, due consideration should be given to the mutual temperament as well as to financial standing. A certain degree of compatibility is essential in order that the efforts of the concern toward success may not be hampered by petty quarrels which usually lead to disagreement of a more serious nature and may disrupt the firm.

In a partnership composed of two members, unless otherwise agreed, one has as much authority as the other, regardless of whether he has invested as much in the business or not. In the event of a disagreement in regard to the policy of the firm, or for other causes, the only redress open to the second partner, if the first persists in his actions, is to ask for a dissolution. When there are several partners, the one who is dissatisfied may bring pressure to bear upon his associates and compel them to buy him out, by threatening to dissolve the firm. (See *Dissolution*, p. 60).

2. Limited Partnerships.—The scheme of organization designated by the term "Limited Partnerships" first arose in France, this method of association of two or more people for business purposes having been employed there since the period of the Middle Ages. Previous to its inception the nobility and clergy of that country were deterred from increasing their possessions through the

ordinary channels of business. The nobles did not wish to have their names publicly connected with tradesmen, whom they considered far beneath them in the social scale; while the clergy did not consider it compatible with their calling to engage, at least publicly, in buying and selling. They therefore invested their means privately, leaving the management of the business in the trader's hands. What has since developed into our modern limited partnership was the result.

It is hardly necessary to state that the original reason for their existence has been replaced by one of much greater potency, viz. public policy. Persons are encouraged to invest their capital, when they realize that their liability is limited to the amount of their investment, and that they will not be forced to pay any deficits of other partners.

Definition.—Briefly defined, a limited partnership is one in which the liability of specified members is restricted to a certain amount. In such an organization, however, at least one member must occupy the same position as if it were an ordinary partnership, and be held fully liable for all the firm's debts. The term "limited partnership" formerly meant something different from this, being applied to persons engaged in one particular transaction.

Limited partnerships were formed in Louisiana during the period of the French possession, but New York was the first State to enact legislation providing for their formation. Other States rapidly followed, the laws of practically every State in the Union now embracing statutes on the subject. In England, on the contrary, limited partnerships have never been authorized except in the form of joint stock companies.

Distinctive Feature.—As will have been gathered from the definition, the distinctive feature of a limited partnership is the conjunction of at least one general partner, with full liability, with one or more special partners with limited liability. In all other respects it is governed by

the rules and regulations which affect ordinary partnerships. A limited partnership is essentially the product of statute, and no such thing can exist unless legally authorized.

Varying State Laws.—As the laws vary somewhat in the different States, a limited partnership can not be formed in one State and do business in another State, although there is nothing to prevent its engaging in different transactions in any part of the country. If it should attempt to remove to a different State from that in which it was formed, its features of limitation would be rendered null and void. It would be considered, both in the State in which it was formed and the State in which it was located, as a general partnership, and the special members would be subjected to the same liability as those of the general class.

This consequence seems to be the usual result of failure to comply strictly with the provisions of the statute, and it therefore devolves upon the special partners, upon whom the least liability is placed, to ascertain that all requirements of the law have met with compliance. While details may vary in the different States, certain general requirements are practically the same in all States.

A certificate must be signed, acknowledged, registered and published, when the name of the firm is announced; the general character of the business must be described; and the names and residences of the parties to the association must be given, stating which are general and which are special partners. If the partnership is to begin at some future date and to endure for a limited period, this must also be stated. If no date of commencement is given, its existence will date from the time at which the certificate passes from the hands of the firm into those of the public official. This point, however, is subject to some modifications in certain States. The amount contributed by each of the special partners must also be indicated, and an affidavit made to the effect that the money has been paid in.

The Firm Name.—In the selection of the name under which the firm proposes to do business, only the names of those who are general partners should appear. Generally not more than two names are used, the suffix "and Company" serving to indicate the presence of others in the firm. However, non-trading concerns, such as legal firms, frequently use three and even more of the partners' names.

While as a rule the names of special partners can not appear, it is required in some States that the names of all partners, special and general, be posted in some conspicuous place in connection with the business, in order that the public may be duly informed as to the personnel of the firm and the relative standing of each member. The special partner, however, is not permitted to take an active part in the conduct of the concern's affairs. Neither can he withdraw money from the capital of the firm in such an amount that his original contribution is affected, unless he wishes to take upon himself the duties and liabilities of a general partner.

Public Notice.—After being recorded in the proper office, the certificate must remain on file, open to public inspection, in order that creditors may understand the terms of the partnership. In most, if not all cases, notice of the partnership must be published in the newspapers, designated by the Government, for such period as is legally prescribed. If the contribution of the special partner is in the form of property, as permitted in some States, it may be accepted at its appraised cash value. The neglect to have such property duly appraised is sufficient to change the character of the firm to an ordinary partnership.

The Term "Limited" in Firm Name.—In some States the term "Limited" must be added to the name of every limited partnership. If it is omitted, the consequences are the same as for other variations from the provisions of the statute.

The necessity for strict observance of legal require-

ments will be apparent, from the foregoing, in which only the principal ones are noted.

"The requirements of the statute as to the contributions to capital are for the benefit of creditors and must be strictly complied with. A non-compliance by one special partner will render all liable as general partners. It is the duty of a special partner seeking exemption from liability to see to it that the statute is complied with by the other special partners as well as by himself. Neither good faith, nor honest intentions, nor accident will protect the special partner from the consequences of a non-compliance with the statute."—(*American-English Encyclopedia of Law*, v. 19, p. 355.)

Advantages.—In an ordinary partnership each partner is an agent for the firm and may enter himself into contracts binding it. Each partner is also personally liable for all the firm's debts. He may have only $1,000 in the business, but every cent he owns must go to firm creditors, to meet liabilities, if the firm's assets are insufficient. A special partner, however, puts in a definite amount of capital, and is not liable beyond that amount so long as the law is obeyed, and its provisions observed.

Many corporations are formed solely that one partner, usually the one with the most money, may escape unlimited liability. A more thorough knowledge of the advantages of a limited partnership would frequently obviate the creation of a corporation in such cases, and thus do away with the officers, directors, taxes and other formalities which are often annoying where only two or three persons are interested.

Therefore, whenever a "close" corporation is being discussed an attorney should be consulted as to the relative advantages of a limited partnership.

3. Joint Stock Companies.—Joint stock companies were primarily organized in order to obtain for a number of persons associated in business certain of the advantages of incorporation. An association of this class is one in which the common capital is divided into a number of

shares, of which one or more is held by each of the members of the association. A Joint Stock Company is in reality only another form of partnership, and the rights and liabilities of its members are governed by the same laws and usages which govern the ordinary partnership.

Points of Difference and Advantage.—An important feature, however, wherein the Joint Stock Company differs from the general type is the fact that the death or withdrawal of one of its members does not cause a dissolution of the company. Another equally important feature is the ability possessed by its members to transfer their holdings in the company to others. Unlike the ordinary partnership, the authority to manage the affairs of the concern is vested in a Board of Directors, and an individual shareholder does not have power to commit his firm to contracts or agreements of his individual making. The Joint Stock Company may continue indefinitely. Its members may employ an artificial name under which their contracts are made and their entire business conducted; and in some States they may sue or be sued in the name of their president or treasurer. While ordinarily the shareholders may be subject to full liability, in some cases the liability may be limited, if provision is made to this effect at the time the company is formed. The articles of the association prepared at the time of formation also indicate and regulate the duties of the several officers and the obligations which one member owes to another, and any person entering the company subsequently is obliged to conform to the regulations and by-laws.

Chief Disadvantage.—While the Joint Stock Company thus possesses a few of the advantages of a corporation, its chief defect is that it fails to relieve a retiring member completely from liability. If a creditor has been cognizant of his previous connections and has received no notice of his withdrawal, he may still hold the retired member for debts of the company. Very few Joint Stock Companies have been organized during recent years, inasmuch

as their objects can be more safely and better attained through the medium of incorporation.

The Statutory Joint Stock Company.—The statutory Joint Stock Company, unlike the common law Joint Stock Company, is the product of special enactment, and is in reality a "quasi" corporation. In the State in which it is formed, it possesses practically all the features of a corporation, with the exception that its members are subject to the same liabilities as those in ordinary partnerships. In the Supreme Court of the United States, no recognition is given to a statutory Joint Stock Company as being anything other than a mere partnership. Many such companies have been formed in the State of New York, notable among which are some of the largest express companies in the country. Different States have granted such organizations corporation privileges of varying value, but at best this form of company is merely a variation of the usual type.

Partnership Associations.—In Pennsylvania and Michigan, business associations known as "Partnership Associations" have been formed. In their object and organization they closely resemble corporations. They issue stock, adopt a seal, pass by-laws, and in the State in which they are formed may sue and be sued under the name of the association. The term "limited" appended to the name of a Pennsylvania firm indicates an organization of this class. Regarding their status in the event of litigation, opinions vary, and while in Pennsylvania they are held to be essentially partnerships, the courts of Michigan look upon them as corporations, and outside of the State in which they are created their standing is doubtful.

Mining Partnerships.—A form of organization apparently peculiar to America and prevailing in the mining districts is known as a mining partnership. It denotes an arrangement whereby the owners or tenants of a mine engage in its operation, agreeing to divide the profits of their labors among themselves in proportion to the inter-

est held by each. An essential feature of such an association is that each partner must own shares or an interest in the mine, as the partnership relation does not apply to one who works under contract to be reimbursed for his labors with a share or percentage of the profits. The mere sharing of profits will not create a mining partnership.

It also differs from an ordinary partnership in that no contract is necessary for its creation, and that dissolution is not effected by the death or withdrawal of a member, or by the transferal of his interests to another. On this account, it is not considered a true partnership by some authorities. Of course there is nothing to prevent a mine from being operated by a true partnership. The fact that a mine may be owned by a number of persons does not necessarily indicate a mining partnership, unless the owners unite and cooperate in working the mine, the actual operation of the mine being also an essential feature for the existence of a mining partnership. Inasmuch as persons may become members of, or sell out and withdraw from a mining partnership at will, the authority of each member to form contracts binding upon his associates is extremely limited, even the managing member being restricted to the purchase of such supplies and the performance of such acts as are customary.

Co-ownerships and Joint Tenancy.—The fact that two or more persons may be part owners or joint tenants in the same piece of property does not imply that a partnership exists between them. As previously stated, a partnership is the result of a contract, and without some form of contract a partnership can not exist.

According to the way in which the property is used, the owners may very easily become partners, and under many conditions it is difficult to decide whether the owners have incurred partnership liability or not.

Co-ownership can, however, be distinguished from partnership; (1) if no contract has been formed; (2) if each co-owner is at liberty to dispose of his interest in the property without affecting his relations with his as-

sociates; or (3) if he is devoid of authority to act as an agent for them in conducting transactions relating to the common property.

2. Special Types of Partners

In the foregoing it has been assumed that the partner is one who has attained his legal majority, and is free from disability. Others than those, however, may and do become partners, subject to certain limitations.

Minors.—The most common exception to the general rule is where a minor (*i. e.*, one who has not reached the age of twenty-one years) is admitted into a partnership.

The legal aspect of a partnership made with a minor is the same as that of any other contract to which one of the parties is a person under age. Such a contract is not necessarily void unless the minor should wish to render it so, in which case the law would uphold him in throwing off the liabilities of the contract. A minor, if a partner, possesses equal powers with the other partners, and his acts are equally binding upon the concern, for in acting for the concern he is an agent, and contracts involving the concern are binding, although a contract concerning himself individually would not be so. If a firm became insolvent, a minor could advance his minority as a cause for avoiding the liabilities to which the partners were subject, and while his original investment might be retained, that would be the only amount for which he could be held.

The admission of minors to partnership, therefore, is not wise although it is not uncommon—it being usually the result of a family relationship. A minor if an acting partner at the time of attaining his majority then assumes full liability, automatically, and becomes equally responsible with the other partners.

The following example of the powers of a minor in partnership might be noted with profit. A, an adult, enters into partnership with a minor, B.

A—The Adult	B—The Minor
Member of the Firm	*Member of the Firm*
1. Can not renounce his partnership because of B's minority.	1. Can renounce any legal obligation before coming of age.
2. Can not escape liability to third persons.	2. Can ratify his contract on coming of age, either by written agreement, or impliedly by continuing it for an appreciable time.
3. Can not take advantage in any way of B's minority.	3. Can renounce his partnership agreement not only as to A, but also to third parties who have been dealing with the firm.

Married Women.—Formerly, under the common law, a married woman could not become a partner, but in later years many of the disabilities of married women have been removed by statute, and at present they are at liberty to enter into any partnership contract, with the exception that in some States a married woman can not become the partner of her husband. This, however, is allowed by special statute in New York and a few other States.

Aliens.—An alien may become a partner provided the formation of such partnership occurs during a time of peace; but should war be declared by or against his country, the partnership is dissolved in consequence.

Insane Persons.—A contract made with an insane person is similar to that made with a minor, in the respect that it is not void but voidable. It is rendered so, however, only through a legal process and not at the option of either of the parties.

If a person became insane after entering into a partnership, the partnership would not of necessity be dissolved, until application had been made to the courts for a decree of dissolution, and the same had been granted. If the other partner or partners made no move in this direction,

the partnership would still be continued, and those attending to the conduct of the business would be held accountable for the proportion of the profits accruing to the insane partner.

3. Formation of a Partnership

A partnership is formed simply by the contract of the parties interested and requires no authority from the government to create it. The contract of partnership may be entered upon by a verbal, implied, or written agreement. The wisest plan is to have the agreement in writing, with all of the terms and conditions expressed.

The law presupposes no understanding in regard to a business agreement other than those points which are expressly stated in a written document, or are otherwise capable of proof.

A verbal contract, though binding, is a fruitful source of misunderstanding and dissension, inasmuch as details are apt to be forgotten. Verbal contracts, though sometimes intended to be permanent, are more frequently temporary in character, being made to serve until a written document can be prepared.

Agreements.—A partnership frequently arises where there is no written agreement and no proof of a verbal one. For example, if two or more persons have acted as partners, either intentionally or unintentionally; if they have each shared in the gains or losses of a certain business, or if they have exercised a community of interest in a common fund, the implied partnership will be recognized in the courts. However, the customary and only proper form of contract is in writing. (See *Partnership Agreements,* p. 55.)

When each partner invests the same amount, sharing losses and gains equally with his associates, and devotes his entire time and services for the benefit of the business, the briefest published notice of such partnership will suffice. Such a notice may read as follows:

NOTICE OF COPARTNERSHIP

William F. Jones and Samuel Gibson have this 1st day of June, 1910, formed a copartnership under the firm name of Jones and Gibson, to conduct the feed and grain business at No. 212 Chestnut Street, Newark, N. J., and will be pleased to have the patronage of all former customers and friends of either partner.

WILLIAM F. JONES.
SAMUEL GIBSON.

The articles of such copartnership may be drawn up in two ways: (*a*) a simply worded agreement setting forth the purposes and obligations of the new firm; or (*b*) an exact legal definition of its powers and duties. Examples of these two forms are as follows:

(*Simple Form*)

ARTICLES OF COPARTNERSHIP

William F. Jones and Samuel Gibson, both of the City of Newark, N. J., hereby mutually agree to become partners under the firm name of "Jones & Gibson" to conduct their trade and business of feed and grain in the said city for the period of two years from date.

The said Jones invests his stock of feed and grain and other material, estimated to be worth two hundred dollars, and the said Gibson invests two hundred dollars in cash.

Both partners shall give their entire time and shall share losses and gains equally.

All amounts earned or received by either partner for work, materials or anything pertaining to the business, shall be deposited in the Guardian Trust Company of Newark in the name of both partners, and shall be checked out as needed for expenses and supplies, by the signatures of both partners, and an equal amount shall be drawn each Monday morning for each partner for personal expenses, but a balance of two hundred dollars shall always be kept and held.

When the firm shall be dissolved the material on hand shall be divided equally and all debts shall be paid from the money in bank, after which the balance shall be divided equally between the partners.

Witness our hands and seals this 1st day of June, 1910.

WILLIAM F. JONES (L. S.)
SAMUEL GIBSON (L. S.)

Witness,
MARK TAPLEY.

(Extended Form)

ARTICLES OF COPARTNERSHIP

These articles of Copartnership entered into on this 20th day of August, 1910, by and between John Murphy of the city of New York, and Thomas Brown, of the city of Philadelphia, Pennsylvania, Witness:

1. The firm name of said copartnership shall be

"JOHN MURPHY & Co."

2. The offices and place of business of said firm shall be situated in the City, County, and State of New York.

3. The purpose of said firm shall be to conduct the business of buying and selling teas, coffees, spices, and their products and preparations.

4. The capital of said firm shall be the sum of Twelve Thousand ($12,000) Dollars, of which the said John Murphy shall invest the sum of Four Thousand ($4,000) Dollars, and the said Thomas Brown shall invest the sum of Eight Thousand ($8,000) Dollars. Said investments shall be deposited in the Knickerbocker Trust Company of New York City on or before the first day of November, 1910.

5. The said Murphy shall give his entire time and attention to the said business and shall engage in no other business, undertaking or speculation during the continuance of this agreement. The said Brown shall give such time and attention to the said business as may be necessary, but shall not be required to give up his present business interests.

6. This agreement shall bind the parties hereto until the first day of January, 1913, at which time it shall terminate unless expressly continued by written agreement for a further period.

7. Neither partner may withdraw from the business an amount in excess of one hundred and fifty ($150) dollars per month, and all amounts so withdrawn shall be charged against the individual account of the partner withdrawing the same.

8. All moneys of the firm shall be deposited in convenient banks in the city of New York, subject to withdrawal only by the check of the firm, signed with the firm name by the said John Murphy, who shall have sole charge of the finances of the firm.

9. Books of account shall be kept and at the end of the year a statement shall be made showing the net profits for the year, and such profits shall be divided between the said partners as follows: 40 per cent of said profits to the said John Murphy and 60 per cent of the said profits to the said Brown.

10. The said Brown guarantees that the profits accruing to the said Murphy shall be not less than $2,500 per annum and if at the end of any year the proportion of net profits coming to the said Murphy shall be less than the said sum of $2,500, the said

Brown agrees and binds himself to make good the deficiency from his own funds.

11. Upon the permanent disability or inability of either partner to participate in the firm business, or upon any disability or incapacity extending over the period of three months, the other partner, may, at his option, have a dissolution of the partnership.

12. Neither partner shall, either for himself or for the firm, during the continuance of this agreement, engage in any sale, purchase or other operation, either directly or indirectly, in or concerning stocks, bonds, securities or commodities other than those pertaining to the firm business as herein set forth.

13. Neither partner shall, during the continuance of this agreement, sign, endorse or guarantee any commercial paper or other instrument or make himself responsible for the debt, default or miscarriage of any other person, firm or corporation, unless with the written consent of the other partner.

14. In the event of the death of one of the parties hereto during the continuance of this agreement, the surviving partner shall immediately take an inventory, close the books of the firm and ascertain the present worth, and shall thereupon have the option to pay the personal representatives of the deceased partner his original investment and his share of any profits shown and one thousand dollars for his share of the good-will and continue the business in the name of his own, or to sell the entire assets, including the lease, firm name and good-will, and after paying all outstanding liabilities, to divide the remaining assets as is usual in such cases.

15. In the event of dissolution on account of death, expiration of term, or from any other cause, the parties hereto bind themselves to conduct such settlement under the directions and according to the statements made by A. and B., Certified Public Accountants of New York City, and if either partner refuses to be bound thereby, or resorts to the courts for settlement, all the costs and expenses of such proceeding shall be taken from his share of the net proceeds of the partnership assets.

In Witness Whereof, the parties hereto have hereunto affixed their hands and seal the day and year above mentioned.

JOHN MURPHY (L. S.)
THOMAS BROWN (L. S.)

Witness,
FRANK SMITH.

The following is a typical notice of Limited Copartnership, specifying articles of agreement in detail. It is a form in general use, and was clipped from the columns of a daily newspaper, the names being changed:

NOTICE OF LIMITED COPARTNERSHIP

POLL & WEST.—We, Wilson H. Poll, Leonidas West and John C. West, all of the Borough of Manhattan, City of New York, having formed a limited partnership, pursuant to the statutes of the State of New York, to begin on the first day of July, 1910, and to end on the 30th day of June, 1911, do hereby certify:

FIRST—That the said limited partnership is to be continued.

SECOND—That the name or firm under which such partnership is to be continued is Poll & West.

THIRD—That the principal place of business of said partnership is to be located in the County of New York, in the State of New York.

FOURTH—That the general nature of the business intended to be transacted by such partnership is the carrying on of a general and bonded warehouse and storage business, and any business that is incidental thereto.

FIFTH—That the names of all the general and special partners interested therein and their respective places of residence are:

Names. *Places of Residence.*

Wilson H. Poll, No. 6 West 40th Street, Borough of Manhattan, City of New York.

Leonidas West, No. 7 West 60th Street, in said borough.

John C. West, No. 7 West 60th Street, in said borough.

That Wilson H. Poll and Leonidas West are the general partners and John C. West is the special partner, and all of them are of full age.

SIXTH—That the amount of capital which the special partner has contributed to the common stock of said partnership is twenty-five thousand dollars.

SEVENTH—That the time at which the continuation of said partnership is to begin is the first day of July, 1910, and the period at which it is to end is the thirtieth day of June, 1911.

In witness whereof, we have made and signed this certificate in the Borough of Manhattan, City of New York, this 24th day of June, 1910.

WILSON H. POLL,
LEONIDAS WEST,
JOHN C. WEST,
Special Partner.

State of New York, County of New York, ss.:

On this 24th day of June, 1910, before me personally came Wilson H. Poll, Leonidas West and John C. West, to me known to be the persons described in and who executed the foregoing certificate, and they severally acknowledged to me that they executed the same.

CHARLES A. NEVILLE,
Notary Public, N. Y. Co., No. 38.

State of New York, County of New York, ss.:
Wilson H. Poll, being duly sworn, deposes and says that he is one of the general partners named in the foregoing certificate; that the sum of twenty-five thousand dollars specified in said certificate to have been contributed by John C. West to the common stock of said partnership has been actually and in good faith paid in cash.

WILSON H. POLL.

Sworn to before me this 24th day of June, 1910.
CHARLES A. NEVILLE,
Notary Public, N. Y. Co., No. 38.

When different amounts are invested, or when partners devote different portions of their time to the business, profits may be shared accordingly. All facts bearing on such a situation should be explicitly stated in the agreement. In fact, to avoid future disagreements, every possible contingency should be foreseen and provided for. It is wiser to have a lawyer draw up an exact instrument covering every debatable question, than to have a loosely-knit, easy-going agreement which will create hard feelings, if it does not eventually disrupt the business.

The Common Law.—Most partnerships are formed under the common law, which is the same in all States. In some Western States partnership codes are in existence, but these are practically identical with the provisions of the common law.

In nearly all the States laws have been enacted whereby special or silent partners may be admitted into a firm, who have no voice in the management of the firm, and at the same time are limited in their liability to the amount of their investment, but in order to obtain the benefit of such laws the provisions of the statute must be strictly adhered to. We have already discussed this phase under Limited Partnerships.

The Firm Name.—Regarding the name under which a firm does business, it has been seen that the number of names of partners is immaterial, although two or three are customarily employed. If no partner's name appears

in that of a firm doing business in New York, the law requires that the names of all the partners shall be filed in the office of the County Clerk, and imposes a penalty for its non-observance. It is also illegal in New York to append "& Co." to the name of a firm unless it stands for an existing or former partner.

In old, well-established firms the firm name is frequently a valuable asset and the courts will protect it from infringement. "Unfair competition," or the use of a name so as to derive benefit at the original holder's expense, even supposing such name to be the person's own name who makes use of it, will not be permitted by the law if it is apparent that the primary object for its employment is to mislead the public. All the transactions of a concern should take place over the firm's name, except those in which real estate is concerned. When countersigned by an agent, this capacity should also be indicated.

When all the partners sign their names to a document of their firm, without any modifying statement, each is rendered liable for its fulfilment.

Partnership Agreements.—There is an increasing tendency upon the part of men entering into partnership to consult professional accountants as to the provisions which should be made in the partnership agreement with regard to the accounts. This tendency is distinctly one to be encouraged, as having in the long run the effect of not only consulting the immediate interest of the partners with regard to the keeping of proper accounts, and the equitable apportioning of profits, but also as tending distinctly to lessen the probability of disputes in the future arising out of questions of account.

The subject is, therefore, one which may be very profitably undertaken by professional accountants, and that without in the least usurping the functions of lawyers. This being so, it has been thought desirable to append certain fundamental rules covering the points most ordinarily arising in partnership agreements, together with suggestions as to how they should be dealt with.

Fourteen Fundamental Rules.—1. State the respective shares of partners in profits and losses; and where it is provided that these shall be varied during the continuance of the partnership, it is especially important to define everything which might tend to affect the amount of agreed profits as between the partners.

2. In the absence of express provision to that effect, partners are not entitled to interest upon capital. If, therefore, they are entitled to receive interest, the fact should be stated.

3. Establish in advance the rate of interest on loans by partners to the firm.

4. Not only should the amount of capital to be introduced by each partner at the outset be expressly defined, but provision should be made as to the manner in which undrawn profits are to be dealt with. That is to say, whether they are to be treated as capital or as loans, the distinction being especially important where it is provided that capital does not bear interest but that loans do.

5. State the amount to be drawn by each partner from time to time on account of profits, together with the penalty in the event of such limit being exceeded.

6. If it is desired that interest should be debited to partners in respect of drawings, state the fact.

7. Give in detail the circumstances under which a partnership may be dissolved. Too much attention can not be given to this point.

8. The exact position of each partner, in the event of a dissolution, is also a matter of great importance.

9. In the event of a partner retiring or dying, the agreement should distinctly provide the amount payable to him (or his representative, as the case may be), and the method by which it is to be ascertained, also the time in which it must be paid, and the interest (if any) it is to bear in the meantime. It is important that the business should not be crippled by making this period unduly short.

10. In connection with the preceding it is frequently convenient that some special arrangement should be made

to obviate the necessity of the books being balanced and stock taken at an irregular period.

11. Define the exact scope of the firm's business, with a view to avoiding disputes as to whether certain profits earned by the individual partners come under the partnership agreement or not.

12. Define the extent (if any) to which partners are entitled to engage in other operations, outside the partnership business.

13. It should not only be provided that "proper accounts" are to be kept, but also that these should be kept upon some adequate system of double entry. They should be balanced at stated intervals, and audited by a professional accountant, and provision made that after the audited accounts have been signed by the partners they are binding upon each individual partner, except where some manifest error has been discovered within a reasonable time—say, three months.

14. In addition to the usual arbitration clause, it is very expedient that there should be one to the effect that all disputes upon questions of account should be referred to the arbitration of a Certified Public Accountant (preferably, if the question of expense is to be considered, the regular auditor of the firm), and it should be further provided that, in the event of disputes upon questions of mixed law and accounts, such disputes should be referred to the arbitration of an accountant and a lawyer, the arbitrators having power to appoint a referee before commencing their reference.

The above rules have been drawn up by a public accountant, and embody long experience.

4. Continuance, Withdrawal, and Dissolution

If a partnership has been made for a limited length of time, as is frequently done, it is legally sufficient for the parties to continue, if they draw up an Agreement somewhat similar to the one given below. This Agreement would then be attached to the original Articles of Partnership, thus becoming a part of it.

AGREEMENT FOR CONTINUANCE

This Agreement made this 1st day of October, 1910, by and between George B. Smith and Arthur V. Kelly, both of the City of Chicago and State of Illinois, WITNESSETH:

That Whereas, The said parties have been engaged in the business of making and selling furniture in the said City of Chicago under the firm name of Smith & Co., and under the terms of certain Articles of Copartnership executed by the said parties three years heretofore for the term of three years, which said term is now about to expire;

Now Therefore, The said parties covenant and agree to continue the said partnership under the said articles for the further term of three years, unless sooner discontinued or amended by mutual agreement, and the said original articles are hereto attached and made part hereof.

Witness our hands and seals the day and year first above mentioned.

GEORGE B. SMITH (L. S.)
ARTHUR V. KELLY (L. S.)

Withdrawal of a Partner.—If for any reason a partner desires to sever his connection with a firm, he may do so by notifying (1) each of his associates of his intentions; (2) the persons with whom his firm had been doing business; (3) the public at large. From the time of such notification no further obligations for the acts of his partners can be fastened upon him.

If a partner decides to withdraw from the firm before the expiration of the term it was intended to endure, the courts will not hold him to the performance of his contract, although any losses suffered by his associates through his withdrawal might be sufficient ground for them to institute a suit against him for breach of contract.

Any change in the membership of a firm operates as a dissolution of the partnership as to all partners, whether such change arises from the death or retirement of a member, from the substitution of a new for an old member, or from the addition of a new member. Where the business of the firm is continued after such change, it is held to be by a new partnership, although the name remains the same. A change in name without a change in membership does not operate as a dissolution.

As above stated, a notice of withdrawal on the part of a member should be sent to (1) his copartners; (2) the firm connections; and (3) the public. The notice in each case may read as follows:

NOTICE OF WITHDRAWAL

(*To Copartners*)

To Messrs. William N. Walker and Andrew McNeish:
Gentlemen: Please take notice that I this day withdraw from the partnership heretofore existing between us. I shall be pleased to confer with either or both of you in reference to the steps to be taken to wind up the affairs of the firm.

Yours truly,
Frank B. Devlin.

New York City,
October 1st, 1910.

(*To Firm Connections*)

New York City, October 1, 1910.

Mr. John Williams,
182 Broadway, New York.
Dear Sir:
Kindly take notice that I have this day withdrawn from the firm of Walker & McNeish and am not responsible for its obligations contracted after this date.

Yours very truly,
Frank B. Devlin.

(*To Public*)

To Whom It May Concern: I have this day withdrawn from the firm of Walker, McNeish & Co., and will not be liable for any obligations of said firm contracted after this date.

Frank B. Devlin.

New York City,
October 1st, 1910.

Notifications of withdrawal to those transacting business with the firm are usually sent by mail. This procedure is not always safe. If an attempt should be made to hold the withdrawing partner for some later obligation of the firm, and the party making the attempt denied

receiving the notice of withdrawal, it would be difficult or impossible to prove that the notice had been received. If there is any danger of such a contingency arising, the notice should be delivered personally or sent by registered mail.

In cases where it is expedient to notify the general public, notices similar to the foregoing should be published in some paper of general circulation in the locality. Such notice would be sufficient to relieve a withdrawing partner from further responsibility to all of those who had had no previous dealings with the firm.

Dissolution.—A partnership may terminate from a variety of causes, the chief of which are the limitation of time set in the articles of copartnership, and mutual consent of its members. Other contingencies, however, may produce the same result.

Eight different causes may operate to bring about a dissolution, as follows:

1. Limitation in the articles of copartnership.
2. Fraud in the drawing up of the articles.
3. Unanimous consent of members.
4. Withdrawal of a partner.
5. Death of a partner.
6. Misconduct of a partner.
7. Bankruptcy of a partner, or of the firm.
8. Decree of a Court of Equity.

The sixth one is the only one requiring further comment here. Disagreements may arise between partners, due to a variety of reasons, small and great. A breach of the articles may result from one partner's action, as, for example, (1) when he refuses to contribute his share of the capital; (2) fails to perform his duties; (3) abandons the business; (4) is excluded from the business by other members; (5) attempts to force an outside person into the partnership without consent of the other members; (6) acts in bad faith. or in any way prejudicial to the firm's standing.

In order to terminate the affairs of a concern under any of these conditions the intervention of the courts is

always required, and generally results in adding greatly to the expense.

When a partnership terminates harmoniously, a liquidating partner may take control, settle up the affairs of the business, pay the debts, fulfil any uncompleted orders or contracts, and distribute any surplus among the members of the concern.

A Notice of Dissolution and Agreement of Dissolution are required for such action.

The following forms have been sustained as legally correct:

NOTICE OF DISSOLUTION OF COPARTNERSHIP

The firm of Milward, Lynch & Co., dealers in Coffees, Spices, etc., is this day dissolved. Ernest Milward, as liquidating partner, will settle all obligations of the late firm and is authorized to collect all claims. He will be found at its office, No. 215 Beaver Street, during the month of November, and thereafter with the new firm of Parker & Milward, No. 145 Wall St., New York City.

ERNEST MILWARD,
THEODORE V. LYNCH,
THOMAS SINCLAIR.

Dated, October 16th, 1910.

AGREEMENT FOR DISSOLUTION

Agreement made and entered into this 13th day of March, 1874, by and between Isaac Bernheimer, party of the first part, Jacob Goldsmith, party of the second part, and Simon Leserman, party of the third part, Witnesseth:

FIRST—That it is hereby mutually agreed that the copartnership heretofore existing between all of the parties hereto under the name and style of the "Oleophene Oil Co." shall be and the same is hereby wholly dissolved.

SECOND—That the said Isaac Bernheimer only shall have the power and authority, and the same is hereby accorded and granted unto him, of taking charge of all the assets of the said copartnership, to collect and dispose of the same to the best advantage, to compromise and settle claims of the firm and to pay and meet all the obligations and debts of said copartnership out of the said assets, and is alone authorized to sign in liquidation.

In witness whereof, the parties to these presents have hereunto

set their hands and affixed their seals the day and year first above written.

ISAAC BERNHEIMER (L. S.)
JACOB GOLDSMITH (L. S.)
SIMON LESERMAN (L. S.)

Sealed and delivered in the presence of
WM. J. TRIMBLE.

The foregoing agreement for dissolution was brought in as an incident in the case of Leserman *vs.* Bernheimer, 113 N. Y. 43. The sufficiency or legal effect of the agreement was not questioned. It is a good example of a brief instrument of its kind.

Duties of Liquidating Partner.—A "continuing" partner may also be a "liquidating" partner in cases where the death of his partner was the moving cause of retirement, or the retiring partner may be withdrawing from the business on account of sickness, old age, or some other indisposition. In each of these contingencies the continuing partner is charged with much greater limit of responsibility than the vendee occupies in any other position.

The continuing partner should on his own initiative, even if the representatives of the retiring partner do not suggest such action, secure the services of independent appraisers, who, after being acquainted with the facts, should proceed with their work, having due regard to the rights of each partner.

In many cases, however, no such action is taken, and the surviving or continuing partner liquidates the business and places his own values upon the assets. It is difficult to lay down any definite rules for him to follow, but it must be observed as a general maxim that in all cases where doubt exists as to values, the absent partner should have the benefit of such doubt. The reason for this is clear, for it must inevitably be true that the continuing partner will be fully alive to all the advantages which according to his way of thinking belong to him, while, on the other hand, death or absence having closed

the lips of the retiring partner, his rights, if not clearly set forth, may escape attention entirely.

It is a well-known rule of the law that a liquidating partner must not take the slightest advantage of his position, and this fact alone would compel him to settle all doubts in favor of the absent partner. Probably the most difficult point to decide will be the value of the stock-in-trade, and as each case, of necessity, must stand on its merits, no general rules can be laid down.

The liquidating partner is bound in law and equity to realize the highest possible price for anything he may sell, and if he is selling to himself he is assuming the responsibility of putting himself in a position where he says to the world that he has given more for the stock than anyone else would have given.

Of course, the retiring partner is entitled to or responsible for his share of the profits earned or losses incurred in the carrying out of the contracts executed before the date of dissolution or winding up. Necessarily all of the expenses of such contracts up to the time agreed upon have been charged to the business; therefore, it would be obviously unfair to the retiring partner to have to pay his proportion of the expenses of making a sale and then be deprived of any share of the profits. This applies with equal force to losses; the continuing partner is not liable for anything beyond his own share of losses incurred in executing contracts entered into in good faith prior to his purchase of the business.

III

CORPORATIONS

1. Advantages and Disadvantages

Definition—Compared with Partnerships—Control of Stock—Classification—Advantages—Separate Legal Existence—Continuity—Convenience of Stock—Efficient Management—Disadvantages.

2. Procedure

How to Form a Corporation—Seven Points Covered by the Charter—Specimen Charter—Filing the Charter—Organization Taxes and Fees—Where to Incorporate—State Requirements of Incorporation.

3. Organization

The By-Laws—Specimen By-Laws—Powers Vested in Three Heads—1. The Stockholders—Voting Powers—Dividends—Meetings—2. The Directors—Powers and Duties—Election and Removal—Personal Liability—Meetings—Committees—3. The Officers—Names and Duties—The President—The Vice-president—The Secretary—The Treasurer—Minutes and Reports—Period of Office.

4. Business Combinations, or Trusts

Pools—Trusts—The Combination of Corporations—Advantages of Combination—Evils of Monopoly—James J. Hill's Opinion—The Spirit of Competition—The Difference between Competition and Opposition.

partnership only is here considered, the reader being referred to Limited Partnerships and Joint Stock Companies under their own heads.

A Corporation	A Partnership
1. Is an artificial person distinct from the individual members composing it.	1. Is not and can not be distinct from the persons composing it.
2. Is an organization authorized by law and evidenced by charter.	2. Is formed by contract express or implied and may exist without the knowledge of the parties.
3. Can not call upon members, except in one or two States, to accept personal liability for corporation debts.	3. Holds each member personally liable for all firm debts, no matter how small his interest.
4. Is not interrupted in continuity by the death or withdrawal of any of its members.	4. Is terminated by the death or withdrawal of partners.
5. Has its management in the hands of directors with limited powers, and appoints agents in the manner prescribed by the law and the rules of the corporation.	5. Grants powers to each partner to act as the agent of the other partners, with unlimited powers to transact partnership business and contract liabilities.
6. Has no concern with the sale or transfer of shares by stockholders, beyond noting the fact.	6. Provides that an interest can not be sold, or a new partner admitted, without consent of all partners.
7. Permits a stockholder to borrow money on the security of his certificate.	7. Does not form a valid collateral for the borrowing of money.
8. Ownership therein is evidenced by shares in small units, which permits the transfer of small interests to the employee *et al.*	8. An employee of same who receives an interest in the business may be held as a partner.

Control of Stock.—The control in corporate affairs is obtained by a majority of the shares of ownership, which are known as shares of stock (see *Finance,* p. 109). Thus a corporation may have a capital stock of $100,000, divided into 1,000 shares at $100 each. Each one of these shares represents 1/1000th part of the ownership in the

corporation, and the holder of each share is entitled to 1/1000th part of any dividend which the directors may declare. There may be 499 men owning a minority of stock and one man owning one more than half the total number of shares, and this man can name the directors and manage the corporation. It might be supposed that, in this way, the minority stockholders would be treated with great injustice, and this has sometimes happened. Generally speaking, however, no such trouble is experienced and the ownership of most corporations is, moreover, so widely distributed as to make it extremely difficult for one man to obtain control.

Classification.—Corporations are regarded by law as coming under three headings:

1. *Public:* Those which carry out government purposes, or exercise public functions, such as those of a town.
2. *Quasi-public:* Such as railway, telegraph companies, etc.
3. *Private:* Those conducted for the private benefit of members—such as ordinary trading or manufacturing concerns; and it is with this last that we are chiefly concerned.

Advantages.—Before dealing with the method of organizing a private corporation, it might be well to emphasize further direct advantages which are available thereby to the prudent business man. The first is the reassuring item of limited liability. A subscriber to the shares of a corporation, or one of the promoters, is usually not called upon to make immediate payment for stock taken. Generally he pays 10% with his application. Once this application has been accepted and filed, he has rendered himself liable for the par value of his stock, and hence only for debts contracted by the corporation to that amount. As he gradually answers calls and pays up the required amount his liability decreases, till it finally ceases, on his stock becoming full paid. That is, if he subscribes for $1,000 of stock, the moment he pays the

final instalment making up the sum of $1,000, he is free from all further financial responsibility. Once full paid is always full paid, and he is not liable in any way for losses sustained by the corporation, unless it be a financial institution which is subject to special liabilities. He may perhaps lose his original investment, but no more. Thus a man knows exactly how much money he is risking, an obvious advantage over partnership, in which one partner may have to sustain the full amount of loss of his firm, no matter how small his interest.

There are two States in which the rule is broken, namely:

In Minnesota: If a corporation becomes insolvent, stockholders are liable in an amount equal to the par value of the holding.

In California: The stockholder is liable in such proportionate part of the corporation debt as his holding bears to the capital.

The laws of other States, also, should be consulted on this point.

Separate Legal Existence.—The corporation has a quite distinct legal existence of its own. It, as a person apart from its individual stockholders, can sue and be sued without stockholders being involved. It may enter into separate contracts with its stockholders and occasionally with its officers and directors, and in a corporate capacity raise or defend actions for enforcement of contracts entered into between itself and them. A partner, on the other hand, may not contract with the firm, enforce its obligations to him, sue or be sued by it. He must be a party to all firm debts.

Continuity.—No matter how many of the stockholders of a corporation may change, even if none of the original members still retains stock, the corporation is unchanged in every respect. The personal affairs of its stockholders, death, insanity, bankruptcy, as in partnership, have no bearing upon its conduct or finances. It continues until one of the following events happen:

1. It voluntarily dissolves.
2. It becomes insolvent.
3. The period for which its charter was granted runs out; in some States 20 years, in others 50; and in several unlimited. It may also be any fixed period.
4. Its charter is revoked by the State.

Convenience of Stock.—The shares of a corporation may be disposed of by holders thereof at will, without consent of the corporation either in whole or part; the interest of holder being represented in a tangible form by certificates. These certificates, on the shares being sold, are transferred to the new owner. This method of disposing of one's interest has no parallel in partnership, the partner being unable to dispose of his interest without consent of his associates. Should he carry out his sale, or transfer, he mechanically dissolves the partnership. Should a stockholder desire to borrow money, he may do so on the security of his stock certificate, provided, of course, that the corporation is in a good financial position.

Efficient Management.—One of the most admirable features of the corporation is the carefully defined scheme of administration, and the various means of keeping a check upon all transactions. The stockholders by a majority vote appoint a Board of Directors. These in turn appoint agents and officers of the company, whose duties are carefully set forth and detailed by law, thus rendering any ill-considered scheme well nigh impossible. (A full outline of such administration will be found under *Organization*, p. 80.)

Disadvantages.—If the advantages are many, there are nevertheless a few disadvantages, one of which is incapable of being overcome. The item of increased expense, consisting of incorporation fees, the annual tax paid for the privileges granted by charter, and the legal fee to the advising attorney, are not sufficiently formi-

dable to deter prospective incorporators. The powers of a corporation are necessarily defined and limited by charter, but legal advice may overcome this. Again, a corporation occasionally finds that it must raise funds, but its limited liability frightens away prospective lenders. They may be reassured by officers or certain stockholders indorsing notes and bills payable.

Lastly, its affairs may be investigated by stockholders; so that any firm or association which does not wish to expose all its business operations, or purpose of business, avoids incorporation and prefers to remain in a state of partnership.

2. Procedure

The steps required to form a corporation under general laws, such as preparing and filing the necessary application, publishing notice of the contents of such application, obtaining subscriptions for stock, etc., are laid down clearly by the statutes of the several States, which differ only in minor detail.

In most of the States, the first step necessary is that the promoters shall make and sign a written Charter, Articles of Incorporation, or Certificate of Incorporation —three names for one thing which vary according to the State. This must contain the declaration that they are associating for the purpose of forming a corporation under the general laws.

In many cases it is stipulated that the charter itself, or a memorandum containing a specification of the purposes of the incorporation, must be openly published a certain length of time before the charter becomes effective, or the application is considered by the courts. By this means the public is given an opportunity to examine the scheme, to approve of it, or to object.

Seven Points Covered by the Charter.—We append a specimen charter, prepared under the laws of New York. It will be noted that this charter conforms to one fixed general form, which must always contain the following seven features:

1. Title of proposed corporation, which must not infringe upon other titles. Before using, consult the Secretary of the State. The Words "Trust Company," "Assurance," "Insurance," "Bank," "Safe Deposit," "Guarantee," "Guaranty," "Insurance Savings," must *not* be used as part of title.
2. Purpose or purposes of formation.
3. Amount of capital, number of shares, preferences, etc.
4. Location of principal business office.
5. Duration of corporation.
6. Number, names, and addresses of directors, for first year.
7. Names of incorporators and number of shares taken by them.

As the regulations vary slightly in various States, it would be wise to consult the statutes of the particular State in which incorporation is desired.

SPECIMEN CHARTER

(*Prepared under the Laws of New York*)

We, the undersigned, all being persons of full age and citizens of the United States, and at least one of us a resident of the State of New York, desiring to form a stock corporation pursuant to the provisions of the Business Corporation Law of the State of New York, do hereby make, sign, acknowledge and file this certificate for that purpose as follows:

First—The name of the proposed corporation is the John Doe Motor Company.

Second—The purposes for which it is to be formed are the manufacture of various kinds of spark plugs, motors, machines, engines, machinery and contrivances for the generation and application of steam, electricity, gas or other agents for the production of power; the manufacture of cars, carriages, wagons, boats and vehicles of every kind and description; the manufacture of machine supplies and devices and appliances incidental to the construction or operation of motors, vehicles, machines, engines and machinery; the acquisition and sale of inventions, patent rights, letters patent, trade-marks and copyrights covering any or all articles to be manufactured or dealt in by said corporation, or

covering any advertising devices, or advertising matter to be used in connection therewith; the issuing of licenses under patents, trade-marks and copyrights; the sale as principal or as agent and the exporting and importing to and from foreign countries of any spark plugs, vehicles, boats, motors, machines, engines, machinery, machine supplies, contrivances and appliances or other articles manufactured by said corporation, or by other corporations or persons; the carrying on of any lawful trade or business incidental to the aforesaid purposes or any of them. Said corporation shall have power to purchase, acquire, hold and dispose of stocks, bonds and other evidences of indebtedness of any corporation, domestic or foreign; to issue its own stock or bonds or other securities or obligations in exchange for stocks, bonds or other evidences of indebtedness of other corporations, domestic or foreign; to make and carry out contracts of every kind, and to transact any and all business which may be necessary or proper or convenient to the exercise and fulfilment of any of the aforesaid powers and purposes.

THIRD—The total authorized stock of the corporation shall be Two Hundred and Fifty Thousand ($250,000) Dollars, divided into Two Thousand Five Hundred (2,500) Shares of the par value of One Hundred ($100) Dollars each, and the amount of Capital Stock with which said corporation will begin business is One Thousand ($1,000) Dollars. Of said Capital Stock One Thousand Five Hundred (1,500) Shares shall be Common Stock and One Thousand (1,000) Shares shall be Preferred Stock.

Such Preferred Stock shall after January 1st, 1909, be entitled to a preferential, cumulative, annual dividend of Six (6%) Per Cent, payable on or before the 31st day of December of each year from the surplus profits of the Company, and after the Common Stock of the Company shall have received a like dividend, shall participate with the Common Stock in all further dividends declared in that year above Six (6%) Per Cent and up to but not exceeding Twelve (12%) Per Cent but no further.

FOURTH—Its principal office is to be located in the Borough of Manhattan, the City of New York, in the County and State of New York.

FIFTH—Its duration is to be perpetual.

SIXTH—The number of its directors is to be Three (3) and the directors need not be stockholders of the corporation.

SEVENTH—The names and post-office addresses of the directors for the first year are as follows:

[Here follow full names and addresses of directors.]

Filing the Charter.—After the charter is drawn up in due form, it is filed in the office of the Secretary of State (*i. e.*, of the State under which it is incorporated), and

the proper fee is paid to the State Treasurer. A duplicate, along with the receipt showing payment of the fee, is then filed in the office of the Clerk of the county in which the principal office is situated. The organization of the corporation is now for all purposes complete. We show herewith comparative tables of taxes and fees.

ORGANIZATION TAXES AND FEES

Authorized Capital	*New York*	*New Jersey*	*Maine*	*Delaware*	*South Dakota*	*Massachusetts*	*Pennsylvania*
$1,000	$1.00	$25.00	$10.00	$20.00	$10.00	$10.00	$3.34
2,000	1.00	25.00	10.00	20.00	10.00	10.00	6.67
3,000	1.50	25.00	10.00	20.00	10.00	10.00	10.00
4,000	2.00	25.00	10.00	20.00	10.00	10.00	13.34
5,000	2.50	25.00	10.00	20.00	10.00	10.00	16.67
6,000	3.00	25.00	10.00	20.00	10.00	10.00	20.00
7,000	3.50	25.00	10.00	20.00	10.00	10.00	23.34
8,000	4.00	25.00	10.00	20.00	10.00	10.00	26.67
9,000	4.50	25.00	10.00	20.00	10.00	10.00	30.00
10,000	5.00	25.00	10.00	20.00	10.00	10.00	33.34
15,000	7.50	25.00	50.00	20.00	10.00	10.00	50.00
20,000	10.00	25.00	50.00	20.00	10.00	10.00	66.67
25,000	12.50	25.00	50.00	20.00	10.00	10.00	83.34
30,000	15.00	25.00	50.00	20.00	15.00	10.00	100.00
35,000	17.50	25.00	50.00	20.00	15.00	10.00	116.67
40,000	20.00	25.00	50.00	20.00	15.00	10.00	133.34
45,000	22.50	25.00	50.00	20.00	15.00	11.25	150.00
50,000	25.00	25.00	50.00	20.00	15.00	12.50	166.67
55,000	27.50	25.00	50.00	20.00	15.00	13.75	183.34
60,000	30.00	25.00	50.00	20.00	15.00	15.00	200.00
65,000	32.50	25.00	50.00	20.00	15.00	16.25	216.67
70,000	35.00	25.00	50.00	20.00	15.00	17.50	233.34
75,000	37.50	25.00	50.00	20.00	15.00	18.75	250.00
80,000	40.00	25.00	50.00	20.00	15.00	20.00	266.67
85,000	42.50	25.00	50.00	20.00	15.00	21.25	283.34
90,000	45.00	25.00	50.00	20.00	15.00	22.50	300.00
95,000	47.50	25.00	50.00	20.00	15.00	23.75	316.67
100,000	50.00	25.00	50.00	20.00	15.00	25.00	333.34
125,000	62.50	25.00	50.00	20.00	20.00	31.25	416.67
150,000	75.00	30.00	50.00	22.50	20.00	37.50	500.00
175,000	87.50	35.00	50.00	26.25	20.00	43.75	583.34
200,000	100.00	40.00	50.00	30.00	20.00	50.00	666.67
250,000	125.00	50.00	50.00	37.50	20.00	62.50	833.34
300,000	150.00	60.00	50.00	45.00	20.00	75.00	1,000.00
350,000	175.00	70.00	50.00	52.50	20.00	87.50	1,166.67
400,000	200.00	80.00	50.00	60.00	20.00	100.00	1,333.34
450,000	225.00	90.00	50.00	67.50	20.00	112.50	1,500.00
500,000	250.00	100.00	50.00	75.00	20.00	125.00	1,666.67
1,000,000	500.00	200.00	100.00	150.00	25.00	250.00	3,333.34
2,000,000	1,000.00	400.00	200.00	300.00	40.00	500.00	6,666.67
3,000,000	1,500.00	600.00	300.00	450.00	40.00	750.00	10,000.00
4,000,000	2,000.00	800.00	400.00	600.00	40.00	1,000.00	13,333.34
5,000,000	2,500.00	1,000.00	500.00	750.00	40.00	1,250.00	16,666.67

The figures set opposite the various amounts of capital stock include only the organization tax or fee payable to the State based on the amount of capital stock. The organization tax in West Virginia is all or part of the first annual tax. In Arizona there is no organization tax.

In addition to the organization tax or fee as given in this table, there are certain other small filing and recording fees, etc., which must be paid at the time of incorporation.

Where corporations have only a nominal office in the State where incorporated, the annual fees of the resident or registered agent must be paid, which usually are as follows:

New Jersey, $50; Maine, $50; Delaware, $50; West Virginia, $10; South Dakota, $25; Arizona, $25.

Where to Incorporate.—Where shall we incorporate? is one of the first questions which occurs to the promoters of a corporation. And the reason is this. There must be taken into consideration the nature of the business to be carried on, the places where such business will be transacted, the amount of capital stock required, the features of the different classes of stock if more than one class is to be created, the liabilities imposed by law on the stockholders, directors, and officers, and many other points. In many cases the conditions are such that there is considerable latitude for choice. In others one or more points which must be covered in a particular way will make it necessary to incorporate in some particular State, without regard to other considerations. The matter of the amount of annual State tax, although important, is not in all cases the determining feature, and an error in selecting the State of incorporation may subject the company to double taxation without any compensating advantages in other respects.

Under existing laws it is often possible for foreign corporations to do business in certain States on better terms than domestic corporations. By the rules of State comity a corporation organized under the laws of one State is permitted to extend its operations into and have

offices and places of business in other States, subject to such restrictions as may be imposed by the laws of such other States. While each State has full power to regulate all foreign corporations, with certain exceptions, doing business within its boundaries, and even to exclude them absolutely, none of the States has exercised such power to the full extent. The usual provision is that a foreign corporation may do business in the State upon filing a copy of its charter in the office of the Secretary of State, together with the designation of an agent upon whom legal process may be served, and upon payment of a license fee. Restrictive laws applicable to domestic corporations are not always made applicable to foreign corporations.

Where restrictions on domestic corporations exist, therefore, persons desiring to form a corporation freed from such restrictions, obtain a charter from some other State whose laws are liberal, comply with the laws of their own State affecting foreign corporations, and proceed to do business. It is found in some cases that a foreign corporation can escape taxation more readily than a domestic corporation. Another consideration inducing persons to form a corporation under the laws of a State where few if any of its actual business operations are to be carried on, is the desire that in the event of litigation the corporation may, at its option, invoke the jurisdiction of the Federal Courts.

The corporation laws of New Jersey were originally so framed as to invite the corporation of companies by persons residing in other States and countries. The liberality and the facility with which corporations could there be formed were extensively advertised, and a great volume of incorporation swept into that State. While this was taking place New York revised its corporation laws, but impracticably. As a consequence many corporations were driven from New York to New Jersey, and incorporation under New York laws for a time almost ceased. The policy of New Jersey proved profitable to the State, and soon legislatures of other States began active competition.

The work of liberalizing the law progressed slowly in New York, but that State gradually abandoned its ultra-conservative policy, and in 1901 the objectionable features of the corporation laws were eliminated and new measures were enacted, modeled after the New Jersey laws. At the same time the laws relating to foreign corporations doing business in New York were made more stringent. Delaware and Maine also revised their laws, taking the New Jersey act as a model, but with lower organization fees and annual taxes. Arizona and South Dakota also adopted liberal corporation laws, and contenting themselves with the incorporation fees, require no annual State taxes whatever. West Virginia for many years has been popular with incorporators, but in 1901, in the face of the growing competition of other States, the legislature increased the rate of annual State taxes.

Massachusetts laws were revised and liberalized in 1903. Limitations on the amount of capital stock and indebtedness have been removed; stock may be issued for cash, property, tangible or intangible, services or expenses; business may be carried on anywhere; directors' meetings may be held out of the State; corporations may be formed to carry on any lawful business outside of the State; taxes have been reduced; and statutory liabilities of directors and stockholders have in the main been eliminated. Connecticut laws were revised in 1901 and again in 1903, and many of the liberal provisions of the New Jersey laws have been followed. The obvious purpose of the revisions, to bring about the incorporation in Connecticut of home enterprises, will no doubt be realized to a large extent. It may be doubted, however, whether Connecticut will seriously rival New Jersey, Maine and Delaware in the incorporation of companies generally. The fact that there are no annual franchise taxes, however, is an attractive feature.

A digest of all the various laws would be manifestly impossible in the present limits, and incorporators should consult a competent attorney, but a concise idea of the chief differences among existing States laws may be gained from the table, page 79.

State Requirements of Incorporation

State.	*Number, Residence, Qualification of Incorporator.*	*Authorized Capital Stock.*	*Par Value.*	*Amount of Capital in Treasury before Commencing.*	*Duration of Corporate Existence.*
New York . . .	3 or more of full age, two-thirds of number citizens; 1 resident of State.	Not less than $500.	$5 to $100.	$500.	Term of years or perpetual.
New Jersey . .	3 or more of full age; need not be citizens or residents.	Not less than $2,000.	Any amount.	$1,000.	Term of years or perpetual.
Maine	3 or more of full age; need not be citizens or residents.	Not less than $1,000.	Any amount.	None.	No limit, therefore perpetual.
Delaware . . .	3 or more of full age; need not be citizens or residents.	Not less than $2,000.	Any amount.	$1,000.	Term of years or perpetual.
West Virginia.	5 or more.	No maximum or minimum.	Any amount, but all of same value.	10% share paid in by each incorporator before signing.	Specified and not to exceed 50 years.
South Dakota.	3 or more; 1 resident of State.	No maximum or minimum.	Any amount.	None.	Specified and not to exceed 20 years.
Massachusetts.	3 or more.	Not less than $1,000.	Not less than $5.	$1,000.	Perpetual.
Arizona	Any number.	Any amount.	Any amount.	None.	25 years; renewable by three-fourths of Stockholders' vote.
Pennsylvania .	3 or more, and at least 2 subscribers, 1 of whom must be resident.	No maximum or minimum prescribed, but usually $2,000 at least.	Up to $100.	10% before filing.	Perpetual, unless limited in the charter.

3. Organization

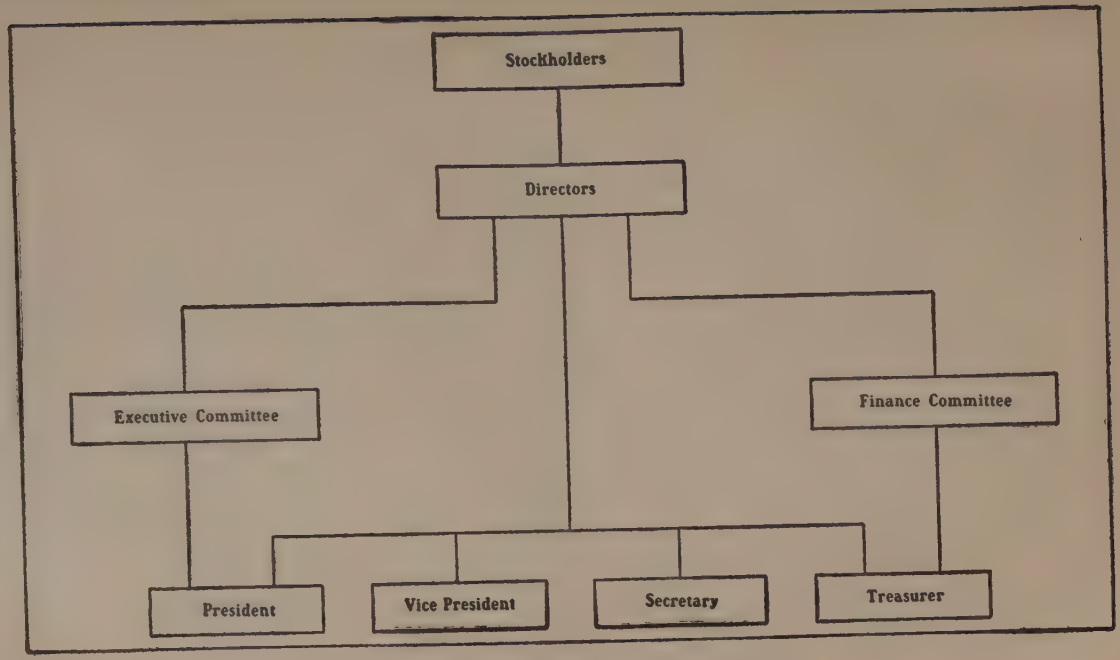
Business men interested in corporations desire to see clearly set forth in the incorporation papers the powers of the corporation and of the directors and officers, as well as the limitations and restrictions on the exercise of such powers. For this reason it is nearly always advisable, where it is permissible, to include in the certificate of incorporation, even though it may be unnecessary from a legal standpoint, a full and clear statement of such matters.

The By-laws.—It is sometimes desired that there shall be certain limitations on the powers of the directors, or restrictions on the rights of stockholders, to sell their shares of stock, to examine the books of the corporation, etc., or provision for voting trusts, or other provisions out of the ordinary. The time to provide for such matters is when the incorporation papers are drawn; it may be impossible later.

It is sometimes desired that certain provisions shall not be subject to alteration or amendment. It is usual, therefore, to include such provisions in the certificate of incorporation, rather than in the by-laws, the procedure for amending the former being usually more formal and requiring a larger vote of stockholders, and it is sometimes expressly provided that such provisions shall not be subject to change.

In other cases the same matters might be covered in the by-laws. The by-laws should supplement the certificate of incorporation, and the two together should contain as far as practicable the powers of the incorporation, all limitations and restrictions on such powers, and all regulations as to the management of the business of the company and the conduct of its affairs, and regulations concerning the issue and transfer of the shares of stock.

The forms of the certificate of incorporation and by-laws vary in each of the States, and the statute sometimes requires that certain matters shall be provided for in the



ORGANIZATION OF A CORPORATION

certificate of incorporation, and that others shall be provided for in the by-laws. A careful study of the statutory provisions of the particular State in which the corporation is to be formed is necessary, and familiarity with approved precedents is advisable. Owing to the frequent changes in the statutes, it is not expedient or even safe to follow blindly the provisions of old certificates of incorporation or other papers. The following, however, are specimen by-laws which good authorities have highly commended:

(*Specimen*)

BY-LAWS

OF

THE JOHN DOE MOTOR COMPANY

ARTICLE I

The principal and registered office of this company shall be at New York, N. Y., until otherwise determined by vote of two-thirds of the Board of Directors as by statute provided.

ARTICLE II

The corporate seal of the company shall have inscribed thereon the words *omnia fugiunt.*

ARTICLE III

SECTION 1.—The property and business of the corporation shall be managed by a Board of Directors, seven in number, who shall at all times be stockholders.

SECTION 2.—If the office of any Director, or of any officer, one or more, becomes vacant by reason of death, resignation, disqualification or otherwise, the remaining Directors, although less than a quorum, by a majority vote, may elect a successor or successors, who shall hold office for the unexpired term.

ARTICLE IV—STOCKHOLDERS AND MEETINGS

SECTION 1.—All meetings of stockholders must be held at the principal office of the company, in the State of New York.

SECTION 2.—At all meetings of stockholders, shareholders may vote either in person or by proxy, in writing, which proxies need not be witnessed or sealed, and no proxy shall be voted upon after three years from its date.

SECTION 3.—A majority in the amount of the stock issued and outstanding, represented by the holder in person or by proxy, shall be requisite at any meeting to constitute a quorum for the election of Directors, or for the transaction of other business, excepting that, in the absence of a quorum, a lesser number shall have the right to adjourn the meeting to a fixed date thereafter or otherwise.

SECTION 4.—Annual meetings of stockholders shall be held on the first Monday in January in each year, at the principal office of the company, in the State of New York, when they shall elect by plurality vote by ballot, the aforesaid Directors, to serve for one year and until their successors are elected or chosen and qualified, and shall transact such other business as may be properly brought before the meeting, each shareholder being entitled to vote in person or by proxy for each share of stock standing registered in his, her or its name, at the close of business hours on the twentieth day preceding the election, exclusive of the day of such election.

SECTION 5.—No share of stock shall be voted on at any election which shall have been transferred on the books of the company within twenty days next preceding such election.

SECTION 6.—Notice of the annual meeting shall be mailed to each stockholder registered on the books of the company at the close of business hours on the twentieth day preceding the date of the annual meeting, at least ten days prior to the meeting, at his, her or its post-office address as the same appears upon the records of the company.

SECTION 7.—Elections of Directors shall be conducted by two inspectors appointed by the presiding officer of the meeting, which inspectors shall be duly sworn and shall in writing certify to the returns, but no person who is a candidate for the office of Director shall act as inspector, judge or clerk of said elections. Said inspectors or the stockholders, by a majority vote of the stockholders present, may require any proxy to be permanently filed with the Secretary before being voted upon. At every election of Directors the polls shall be opened for at least one hour.

SECTION 8.—A full and complete list of the stockholders of the company entitled to vote at the ensuing election, arranged in alphabetical order, with the number of shares held by each, shall be prepared by the Secretary, and filed at least ten days before each election in the principal office of the company in New York, and shall at all times during the usual hours for business in said period be open to the examination of any stockholder.

SECTION 9.—The Board of Directors may close the transfer books before the annual election, or any other meeting of stock-

holders, and before the payment of any dividend, for such period as they deem advisable.

SECTION 10.—Special meetings of the stockholders to be held at the company's principal office in New York, shall be called by the Secretary, by mailing notice stating the object and business to be transacted at such special meeting, at least ten days prior to the date of meeting, to each stockholder of record at his, her or its post-office address as the same appears on the records of the company at the close of business hours on the twentieth day preceding the date fixed for the meeting, on the request of the President, or on request in writing, or by a vote of the majority of the Board of Directors, or on demand in writing of stockholders of record owning a majority in amount of the issued capital stock of the company.

ARTICLE V—OFFICERS

SECTION 1.—Immediately after the election of the Directors if a quorum of said Board be present, and, if not, then at their first meeting thereafter when there shall be a quorum, the said Board shall elect, by ballot, a President, and one or more Vice-Presidents from their own number, who shall hold office for one year and until their successors are elected and qualified.

SECTION 2.—The Board of Directors shall also elect a Secretary and Treasurer, who need not be members of the Board (or one person may be elected to both offices) and they shall hold office for one year, and until their successors are elected, unless sooner removed by the Board, which the Board shall have the power at any time to do, for or without cause.

SECTION 3.—The Board of Directors may also elect an Assistant Secretary and an Assistant Treasurer, who need not be members of the Board (or one person may be elected to both offices) and they shall hold office for one year, and until their successors are elected, unless sooner removed by the Board, which the Board shall have the power at any time to do, for or without cause.

ARTICLE VI—EXECUTIVE COMMITTEE

SECTION 1.—The Board of Directors may appoint three or more Directors, who, with the President, shall constitute an Executive Committee. Vacancies in such Executive Committee shall be filled by the Board.

SECTION 2.—The Executive Committee shall have and exercise in the intervals between meetings of the Board of Directors all powers of the Board requisite for the conduct, management and development of the company's business. A majority of the Executive Committee shall be a quorum for the transaction of business, and the Committee shall at all times act by a vote of a majority of

those present at a meeting at which there is a quorum. The Executive Committee may hold its meetings at any place which it may find convenient.

Article VII—Meetings of Directors

Section 1.—Regular meetings of the Directors shall be held on the first Monday in each month.

Section 2.—Special meetings of the Board may be called by the President or Secretary on two days' notice by letter or telegram to each Director. Special meetings shall be called in like manner on the written request of two members of the Board. Such notice may be waived in writing by the Directors.

Section 3.—A majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business, except to adjourn.

Section 4.—A meeting at which all the Directors are present shall be legal without notice or waiver of notice.

Section 5.—The Directors may hold their meetings and have an office and keep the books of the company, excepting stock and transfer books, outside of the State of New York, at such place or places as they may from time to time fix upon.

Article VIII—Powers of Directors

Section 1.—The Board of Directors shall have the management of the business of the company, and in addition to the powers and authorities by these By-Laws expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done by the corporation, subject only to the provisions of law, of the charter of the company and of these By-Laws, and to regulations from time to time made by the stockholders, provided that no regulations so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

Section 2.—Without prejudice to the general powers conferred by the last preceding clause, and the other powers conferred by law and by these By-Laws, it is expressly declared that the Board shall have the following powers:—

(*a*) To purchase or otherwise acquire for the company any property, rights or privileges at such prices and on such terms and conditions and for such consideration as they think fit.

(*b*) At their discretion, to pay for any property or rights so acquired, either wholly or partially, in money or in stock, bonds, debentures, or other securities of the company.

(*c*) To appoint, at their discretion, remove or suspend such managers, officers, clerks, agents and servants as they may from time to time think fit, and to determine their duties, and to fix,

from time to time, their salaries or emoluments, and to require security in such instances and in such amount as they think fit.

(*d*) To confer, by resolution, upon any officer of the company the right to choose, remove or suspend such subordinates.

(*e*) To determine who shall be authorized to sign on the company's behalf, bills, notes, receipts, acceptances, endorsements, checks, releases, contracts and documents.

(*f*) From time to time to provide for the management of the affairs of the company, at home or abroad, in such manner as they think fit, and, in particular, to appoint any persons to be agents of the company with such powers and upon such terms as may be thought fit.

Article IX—President

The President shall be the chief executive officer and head of the company, and shall preside at all meetings of the Board of Directors and Executive Committee and perform such other duties as are usually incident to the office. He shall be *ex officio* a member of all standing committees.

The first Vice-President, or in his absence, or during his disability, the second Vice-President, shall be vested with all the powers, and shall perform all the duties of the President in his absence, or during his disability.

Article X—Secretary and Assistant Secretary

The Secretary, or in his absence, or during his disability, the Assistant Secretary, shall be *ex officio* Secretary of the Board of Directors, and of all standing committees; shall attend all sessions of the Board and act as clerk thereof; shall be custodian of the seal of the company, shall keep all minutes, and perform all the duties usually incident to the office of Secretary; shall be sworn to the faithful discharge of his duties, and shall perform any special duties required by the Board of Directors.

Article XI—Treasurer and Assistant Treasurer

The Treasurer, or in his absence, or during his disability, the Assistant Treasurer, shall keep full and accurate accounts of receipts and disbursements in books belonging to the company, and shall deposit all moneys and other valuable effects in the name and to the credit of the company in such depositories as may be designated by the Board of Directors; shall disburse the funds as may be ordered by the Board, or duly authorized Committee of officers, taking proper vouchers for such disbursements, and shall render to the President and Directors, whenever they

may require it, an account of all his transactions as Treasurer, and of the financial condition of the company, and annually a like report for the preceding year.

He shall give the company a bond in the sum, and with one or more sureties, satisfactory to the Board, for the faithful performance of the duties of his office and the restoration to the company in the case of his death, resignation or removal from office, of all books, papers, vouchers, money or other property of whatever kind in his possession belonging to the corporation.

Article XII—Stock

Section 1.—All certificates of stock shall be signed by the President and by the Treasurer, and shall have affixed thereto the corporate seal.

Section 2.—Shares of stock of the company shall be transferable only on the books of the company by the holder thereof in person, or by his, her or its attorney, duly authorized thereto, in writing, and upon the surrender of the old certificates therefor duly endorsed.

The company shall have the right to require the endorsement of stockholders to be proved or acknowledged in the manner provided by the statutes of New York for deeds of real estate.

Whenever any transfer shall be made for collateral security and not absolutely, the fact shall be so expressed in the entry of such transfer, and the real owner shall continue to have the right to vote thereon, notwithstanding such transfer, until absolute transfer is made on the books of the company.

Section 3.—In case of the loss or the destruction of a certificate, another may be issued in its place upon proof of such loss or destruction, and the giving of satisfactory bond of indemnity.

Section 4.—Certificates of stock surrendered for transfer, shall be canceled by the company or its transfer agent at the time when the shares represented by the certificates are transferred.

Article XIII—In General

Section 1.—The fiscal year of the company shall begin the first day of January and shall terminate at the end of the month of December.

Section 2.—(*a*) Dividends upon the capital stock of the company, when earned, shall be payable from time to time, and in such amounts as the Board of Directors may determine, subject to the provisions of the certificate of incorporation.

(*b*) The Board of Directors may, from time to time, as in their absolute discretion they may think proper, create a reserve fund to meet contingencies, or for repairing or maintaining or extending, or adding to any property of the company, or for any

such other purpose as the Directors shall think conducive to the interest of the company.

SECTION 3.—Unless the Board shall otherwise, from time to time, order the contrary, all contracts shall be signed by the President or one of the Vice-Presidents, and attested and sealed by the Secretary or Assistant Secretary.

SECTION 4.—All checks, drafts or orders for the payment of money shall be signed by the President, or one of the Vice-Presidents, or the Treasurer or Assistant Treasurer, and countersigned by one of said officers (other than the signing officer in any given instance) or as otherwise determined from time to time by the Board.

SECTION 5.—All notes and acceptances shall be signed by two officers of the company, namely, the President, or one of the Vice-Presidents, and Treasurer or Assistant Treasurer, or as otherwise determined from time to time by the Board.

SECTION 6.—Books of account and records of the company shall be open to the inspection of any member of the Board of Directors at all times during the usual hours for business. The book or books in which the transfer of stock shall be registered and the books containing the names of stockholders, shall at all times during the usual hours of business, be open for the examination of every stockholder at the company's office in the State of New York.

SECTION 7.—(*a*) Any stockholder, officer or Director may waive, in writing, any notice required to be given under these By-Laws.

(*b*) Whenever, under the provision of these By-Laws, notice is required to be given to any Director, officer, or stockholder, it shall not be construed to mean personal notice; but such notice shall be given personally, or by depositing the same in the post-office, or letter-box in a post-paid sealed wrapper, addressed to such Director, officer or stockholder, at his, her or its address, as the same appears on the books of the company; and the time of such notice shall be deemed to be the time when the same shall be thus mailed, excepting where notice may be given by telegraph, as in these By-Laws provided, in which event the notice shall date from the time the telegram is deposited, duly prepaid, in any regular telegraph office or branch thereof.

ARTICLE XIV—RECEIPTS

The President or one of the Vice-Presidents, or the Treasurer or Assistant Treasurer, is authorized to receive and give receipt for all moneys, due and payable to this company from any source whatever, and to endorse warrants and checks in its name and on its behalf, and to give full discharge for same, or as otherwise determined, from time to time by the Board of Directors.

ARTICLE XV—ALTERATION OF BY-LAWS

The By-Laws may be altered or amended by a majority of the Board of Directors at any regular meeting or special meeting, provided ten days' notice is given, in writing, to each Director stating where the meeting will be held, and that it is the intention at that meeting to alter or amend the By-Laws.

Powers Vested in Three Heads.—The actual control of a corporation falls under three heads, as follows:

1. The Stockholders.
2. The Directors (who may appoint committees).
3. The Officers.

1. The Stockholders.—In a corporation the stockholders have little to do with the actual active business. They own the stock, and through that ownership, the corporation itself. The business and its profits belong to them, but they delegate the active management to directors, with whose actions they can not collectively or individually interfere. Their functions are therefore limited to the following:

1. They form the corporation.
2. They hold annual or stated meetings, to hear reports read, elect directors and generally discuss the corporation's affairs.
3. They examine the books and records at reasonable times.
4. They attend special meetings called for some particular purpose.
5. They make, amend, and repeal the by-laws unless that power is delegated to the directors.
6. Their consent is necessary to
   - (*a*) Amend the Charter.
   - (*b*) Increase or decrease the capital.
   - (*c*) Liquidation of the corporation.
   - (*d*) Corporate mortgages.
   - (*e*) And all other proposed actions under charter provisions.

Their liabilities (treated under the head of advantages)

are few, being limited to the full par value of stock subscribed for except in one or two States, notably California and Minnesota.

A majority of stockholders have the right to control the affairs of the corporation. They become for all practical purposes the corporation itself, and take upon themselves the trust relation occupied by the corporation toward its stockholders. In cases where the minority suffer through fraud or undue advantage taken of them by the majority, the courts will interfere, but not in other cases where the majority appear to act in good faith and as they believe for the corporate benefit.

Voting Powers.—A stockholder is entitled to vote his stock either personally or by proxy. Most of the States have authorized a system of "cumulative" voting for stockholders; which may be explained thus. Suppose the number of directors to be six, then the stockholder would have six votes for each share held by him, which if he were one of the minority he would cast for one man, or divide. If a stockholder is unable to attend a meeting of stockholders he can appoint a proxy who will have the same rights that he himself has. Such proxies are revocable, and can be made for one meeting or for a period.

Dividends.—Except where there is an issue of preferred stock, etc., the stockholder is entitled to share in the distribution of dividends, in proportion to his holding. Should it be resolved to increase the capital, the stockholder has the right to subscribe for the new stock, in proportion to his holding of the old outstanding stock. On the dissolution of the corporation, or a final or partial distribution of the assets, each stockholder is entitled to a proportionate share.

Stockholders' Meetings.—A meeting of all shareholders is held annually, but the president is frequently given authority to call special meetings, or a certain number of directors may call a meeting by a written request; or

one-third or a majority of the stockholders may demand a meeting. All business to be considered must be specified in the call for such meeting; also time and place—any of which if omitted render the special meeting improper and its action illegal.

2. The Directors.—A single director as such has no authority over the affairs of a corporation. He can only act as one of the Board of Directors, elected by the stockholders; in whose hands they place full charge of the property and affairs of the corporation with authority and power to manage it. The number of directors is determined by charter, usually not less than three, and the maximum may run as high as thirty, as in Ohio. Unless there is some express statutory prohibition, any person capable of acting as the agent of a corporation may be a director. An alien, a married woman, or a trustee may act as director. It is not absolutely necessary, but at the same time is occasionally useful, that a director should hold one or more shares of stock. In certain States, such as New York, North Dakota, etc., where stockholding is a qualification of a director, he need not be a stockholder if he is one of the *first* directors, that is, one of those named in the charter.

In most States one or more of the directors must be residents of the State of incorporation, and the preceding qualifications have led to the creation of what is known as a "dummy director." That is, in order that a corporation may fulfil these conditions of having a stockholding director, a stockholder nominally transfers a block of stock to the director, who receives the certificate, the transfer being entered in the books of the corporation, thus qualifying the director for election. The director, however, is required to endorse the certificate back, so that should he fail to act in accordance with the stockholder's wishes he may be instantaneously disqualified by recording the endorsement of certificate in the company's books. The system, however, lends itself to fraud, as a majority stockholder, that is, one who holds the biggest proportion of the stock, may pack the board with

his own directors, and thus influence the conduct of the corporation's affairs.

Powers and Duties.—The powers of directors are only exercised in a duly assembled meeting, a quorum of which must be present; and a majority of the votes taken is required to express approval or disapproval. Their powers cover all subjects connected with the management of the affairs of the corporation; and only in cases of actual fraud or gross mismanagement can they be interfered with. They may, however, be restricted by provision in the charter or by-laws, from:

1. Incurring obligations on behalf of the corporation.
2. Selling corporation assets.
3. Fixing excessive salaries, etc.

Unless authorized by statute laws, charter, or by-laws, they can not pass new or amend existing by-laws. The power to appoint and remove officers and agents of the corporation is given by statute and charter. Usually the Board of Directors can proceed by a quorum to fill vacancies in their number caused by death, removal, or resignation. The director is not entitled to compensation for time thus occupied, unless provision is made for same in the charter or by-laws. A fee, however, of from $5 to $20 is usually given by the large corporations for attendance at meeting. Where services are rendered which are outside of those demanded by his stated duties he should be paid a commensurate fee, and arrangement for this compensation should be made in proper form before such service is undertaken.

Election and Removal.—Directors are usually elected each year by stockholders at their annual meeting. In some States the first directors are named in the charter, and their appointment is made effective whenever the charter is approved.

A director can resign whenever he wishes. He can not be suspended or removed by his fellow directors, but only by vote of the stockholders through a legal process. Owing to this difficulty, a director is usually

permitted to complete his term of office, should he refuse to resign.

Personal Liability.—As one of the Board, a director can be held personally liable for the following:

1. For loss and damage which the corporation sustains owing to the exercise of acts beyond those which he is authorized to perform—known as acts ultra vires.
2. For any unlawful act of the corporation carried out with his knowledge or consent.
3. For any violation of the laws regulating dividends.
4. For loss and damage owing to gross inattention and mismanagement.
5. For lending corporation funds to a stockholder.
6. For making false reports as to the corporation.
7. For transferring corporation property to officers or stockholders of the company, with the intent to defraud creditors.
8. For failure to perform the duties of trustee of corporation property in case of dissolution of the corporation.

In many States directors are not only personally liable, but are also open to the criminal charge of embezzlement or fraud.

A director who refuses to approve of the action of his fellow members can always safeguard himself by having his dissent entered in the minute books, or by making public his dissent.

Directors' Meetings.—Directors may meet as frequently as they choose. A monthly meeting is usual, though in corporations in which stockholders are in close communication and the Board is small, it may meet only quarterly or half-yearly. Special meetings may also be held, the call being issued upon written request of a majority, usually two-thirds of the directors. The office of the corporation is the usual and proper place of meeting. If it is not specified by charter or by-laws, a majority of the whole number of directors constitutes a quorum,

without which number, of course, it is impossible for them legally to transact business.

Committees.—In some corporations there is often a large Board of Directors, many of whom are on the Board simply as representing certain interests, and not because they have any ability in the conduct of a corporation. As it is thus difficult to get a quorum, it is usual for the directors to appoint by election what are called "Standing Committees," composed of three or five of their members, to whom the actual direct management of the corporate affairs is delegated. There may be several such, but it is usual only to appoint two, *Executive* and *Finance*, whose operations are supervised by the Board itself. Where there is only one, the Executive, it becomes the active agent of the Board. Where there are both, they have the powers of the Board, the Executive dealing with all general matters; the Finance controlling the corporate finances.

Such committees are usually created and given power according to charter or by-laws. The Board itself merely chooses the persons to serve thereon. In electing them, the Board looks to their particular qualifications for the work in hand. Occasionally, however, the charter stipulates that the president, vice-president and treasurer, alone or with others, shall form the Executive Committee; while the treasurer should obviously be included in the Finance Committee.

These committees must keep full records of all proceedings and actions, which must be presented to the Board for examination. Meetings need not be regular, but in case of a special meeting the consent of all members of such committees must be obtained in advance.

A majority of the committee constitutes a quorum, and has power to act.

3. **The Officers.**—The officers of a corporation are those officials subordinate to, and taking their authority from, the Board of Directors, by whom they are appointed; a clause granting such power being expressed in the

statutes, charter or by-laws. Certain of those officers—the president, one or more vice-presidents, secretary and treasurer—are elected as a matter of course, according to statute, charter or by-laws. In addition there are also generally appointed managing directors, general managers or superintendents, counsel, auditors and special agents for the performance of specific duties.

Two corporate offices, provided they do not conflict, may be held by one person. Appointments are made for one year with renewal. Experts, however, such as managers, etc., are frequently engaged by contract for a term of years, and the power to enter into such engagements needs no authorization by charter or by-law. Officers hold office until their places are properly filled; vacancies can be filled without specific authority. Any one who can act as an agent possesses the capacity of an officer. A married woman, minor, alien, or one of the directors of the corporation, is incapable of holding office.

The president and vice-president are, except in rare cases, the presiding officers of the Board of Directors. The amount of salary paid to an officer is fixed by the Board, but a director who is also an officer can not vote upon the question of his own salary, and it is usual for him to leave the room when such vote is being taken. Any officer of a corporation, though he has no specific contract, may demand reasonable payment for his services to it.

The duties of an officer are governed: (1) by the statutes of the State and the charter, which seldom have clauses affecting them; (2) by the by-laws, which usually set them down in full; (3) by the Board of Directors, which confers further power as authorized in accordance with the foregoing higher authorities; and (4) by custom, which determines the ordinary routine business of a corporation, and validates acts not specifically authorized.

An officer can as an apparent agent, that is, one who is allowed to act apparently with the full approval of the corporation, bind the corporation with third parties, as

Use of the Comptometer in a Large Office

(See page 264.)

if he had the specific authority of the corporation. He may also perform certain unauthorized acts which, if ratified, absolve him. Failing ratification, he personally is held liable. An officer is not liable for an error in judgment, but is liable for loss caused by neglect or wrongdoing in his acts of an official capacity.

For sending out false reports and other corporation documents, on behalf of the corporation, with intent to deceive, he may be held personally liable, as well as the corporation. Among other deeds punishable are:

1. Failure to make entries in the stock-book.
2. Failure to exhibit stock-book on demand to properly accredited persons.
3. Lending corporation funds to stockholders.
4. Falsifying accounts, or tampering with corporation records.

An officer, if accused, must always be allowed to defend himself before the Board, otherwise the corporation may render itself liable for breach of contract. In some States, however, officers may be removed at pleasure, and charters and by-laws will provide for this if not mentioned in statutes.

Names and Duties.—The officers of a corporation consist of a president, vice-president, a secretary, and a treasurer; and there may be more than one vice-president, and one or more assistant secretaries and assistant treasurers, and such other officers as may be provided for in the by-laws. The duties of these officers must always be stated explicitly.

The officers of the corporation have such powers only as are conferred upon them by the by-laws of the company or by resolution of the Board of Directors. They are not general agents of the company and consequently can not bind it without authority. It is not necessary that such authority shall in all cases be expressly given; from its manner of doing business, persons dealing with a corporation may assume that the officers who are accustomed to exercise certain powers and to do certain acts have the necessary authority, and such persons are

not required to inquire as to the provisions of the by-laws relating to the powers of such officers.

The President.—It is usually provided that the president shall preside at all meetings of the directors, and shall call to order and act as temporary chairman of stockholders' meetings, and he is very often given the management and control of the business during the intervals between the meetings of the directors or the meetings of the Executive Committee, and it is customary to provide that all subordinate officers and employees shall be subject to his control. In other cases the office of a president is, to a large extent, honorary, and the actual management of the business is placed in the hands of other officers. In every case it is advisable to define clearly the powers of the president in the by-laws.

The Vice-President.—It is usual to provide in the by-laws for a vice-president, although not necessary under the laws of most of the States. The powers and duties of the vice-president should be specified in the by-laws, and it is customary to provide that in the absence or disability of the president, the vice-president may exercise his powers and shall be required to perform his duties. Other powers may be given to the vice-president to meet the requirements of each particular case.

The Secretary.—The secretary's powers and duties should be specified in the by-laws, and it is usual to provide that he shall act as clerk or secretary of all meetings of the directors and stockholders and sometimes also of the meetings of committees; that he shall keep minutes of the meetings and record them in a book or books to be kept for that purpose, and he is usually given the custody of the seal of the corporation with power to affix it to papers which the directors have authorized to be executed, and to attest the seal when so affixed. The secretary is usually required to take an oath of office, and where it is part of his duty to handle funds he is required to give a bond. The secretary is usually given

charge of or supervision over the stock certificate-book, stock ledger and transfer-book, and is sometimes made the transfer agent of the company.

The Treasurer.—The treasurer is usually made the custodian of the funds and securities of the corporation and is given charge of or supervision over its books of account. He is usually required to give a bond to the company, and is responsible for the loss of any moneys or other property of the corporation intrusted to his care. In order that he may be relieved from responsibility as to moneys deposited in banks, it is usual to provide that the Board of Directors shall by resolution designate the bank or trust company to be the depository of the funds of the corporation; and where such designation has been made, the treasurer will not be held responsible in case of the failure of the depository.

If the by-laws so provide, and no statute forbids, the offices of secretary and treasurer may be held by one person. The Specimen By-Laws already given (pp. 81-8) show the actual wording by which the names and duties of officers are usually set forth.

Minutes and Reports.—It is the specified duty of the secretary to keep correct minutes of all proceedings of the meetings of stockholders and directors. Such minutes when properly authenticated are the evidence of the transactions at such meetings and can not be contradicted by verbal testimony, although mistakes may be cited or appended.

Under the statutes of the different States, certain reports are required to be made by corporations, and it is the duty of certain specified officers to make such reports. Penalties are sometimes provided for failure so to do. It is important therefore, for every officer of a corporation to be familiar with the duties imposed upon him in this respect.

Period of Office.—As a rule, officers of a corporation are appointed for the period of one year, but hold their

office subject to removal by the directors at any time. If the by-laws do not give such power of removal they may be amended so as to provide for it, and the directors may proceed to remove an officer under the amended by-laws. In case of removal, there may be questions of contract involved. The directors should, therefore, proceed cautiously, so as not to involve the company in any action for damages.

4. Business Combinations, or Trusts

The modern business combination is a group of corporations, or other commercial enterprises of similar or parallel purposes, so grouped for the purpose of controlling or influencing their special line of business. As such it is recognized to be the logical outgrowth of the corporate form of business. The latter itself was scarcely known prior to 1870; but after the panic of 1874 it began to be used more and more. However, the corporation still suffered, like the smaller business enterprise, from the evils of competition, and to obtain relief from these evils, "pools" or working agreements began to be employed.

Pools.—When a group of business houses or manufacturers mutually agreed to market their output through some common distributing center, the result was called a "pool." In this way it was hoped to eliminate competition and regulate prices and product alike. The inherent weakness of such devices, however, was that their provisions were not enforceable at common law; the good faith of the various members could not be guaranteed; regulations could not be enforced; and membership was not permanent. Mutual distrust might arise, causing the withdrawal of members, and in times of business depression, when profits were few and combination was most needed, the pool was most likely to suffer from the defection of its members. The failure of this control led to another form more definite and binding, popularly known as a "trust."

Trusts.—"The term 'trust,'" says Conyngton, "by a somewhat singular verbal perversion, is applied colloquially to such a combination to express the idea that it controls a sufficient proportion of the industry affected, to give it more or less of monopolistic powers. In former days combinations of this kind were effected by placing the controlling stock interests of the various corporations in the hands of trustees, who by this means elected the majority of the directors of each corporation, and through the compliant boards thereby secured dictated the policy and details of management for each corporation. Thus competition was avoided and such cooperation secured as was deemed necessary."

Under this method the capital stocks of the constituent companies were assigned to the board of trustees, who issued certificates of trust covering such shares. Being thus vested with the control of the various corporations, they gradually assumed more direct control of the companies themselves and were thus in a position to adopt a settled policy in all matters of supply and price. The trust was then a decided advance over the pool, both in stability and power; but these very qualities, giving it unlimited control over prices, aroused popular disapproval. Its legal position was found to be weak, and adverse judicial decisions, in cases brought to test whether or not it was a combination in restraint of trade, finally drove this type of trust out of existence.

The Combination of Corporations.—Recourse was then had to another method of business control, which was that of combining all the desired interests under one dominating central corporation. This method now prevails, and was made possible through an enactment by the State of New Jersey of a Revised General Corporation Act, under which the right was granted to one corporation to purchase and hold stocks of another, a right which, prior to that time, seems to have been held by some corporations, only by virtue of being organized under specific laws. It has been said that "for momentous consequences, this statute of New Jersey is hardly equaled in the annals of

legislation. Corporate organization should henceforth be promoted not to serve the ends of industrial management, but solely in order that financial combinations may indirectly control operating companies through ownership of their capital stock." In this manner the holding company originated, and under this law and similar enactments of other States one consolidation followed another until at the present time there exist certain gigantic combinations of industry which dominate the various lines in which they are interested.

The controlling corporation may take over the business of the smaller concern outright, thereby effecting a consolidation; or it may purchase a majority interest in the stock of two or more companies, thus controlling the operations of each and all. In either case the result is the same—an absolute control and direction of their separate affairs by the central power. The combinations so secured are, when properly arranged, very effective, are upheld by the courts, and apparently withstand successfully the varied anti-trust legislation of the different States of the Union. The organization of large combinations of this kind is a difficult and complicated task, calling for executive talents of the highest order—skilful promoting, sound financing, wise counsel, and far-seeing vision. The man who can successfully coalesce such concerns under one management—as, for example, the United States Steel Corporation—can demand a fortune for his fee.

Advantages of Combination.—"The principal factor leading to the formation of the industrial combinations," says William M. Lybrand, "was doubtless the desire to eliminate ruinous competition by obtaining so large a control over any one class of merchandise that it was possible virtually to regulate the price at which it could be sold. Contrary to the accepted idea, the control of prices does not necessarily mean their exorbitant advancement, but under enlightened management, exemplified, we believe, in one of our largest combinations, it enforces a policy of stability in prices, under which business in

times of depression suffers vastly less than if indiscriminate price cutting were in effect. However, other causes than the control of prices were instrumental in hastening the formation of combinations. In a territory as extensive as the United States the transportation of raw materials to the seat of manufacture, and the finished product thence to the place of its disposal, constitutes a large element of cost. Under a combination, the orders may be so distributed that the mills most advantageously situated as respects transportation facilities can be worked to their full capacity, while others less favorably located may, except in times of unusual activity, be closed temporarily. Orders for certain classes of merchandise may be concentrated in one plant so that it may run continuously with few changes of appliances, and thus turn out the largest output at a minimum of cost. Sources of raw materials may be controlled through the large financial resources of the combination, or by the amalgamation with it of the companies controlling such raw materials. Labor may be dealt with in larger groups and more advantageously; expenses of distribution of goods may be curtailed by dispensing with salesmen who traverse each other's territory; duplicate offices may be eliminated; stocks of merchandise may be reduced; management and office expenses may be decreased by concentration—these are some of the other advantages which it was believed would accrue to the properly constituted combinations, and which have in many instances, doubtless, been realized to a considerable extent."

Evils of Monopoly.—"Without devoting undue space to a discussion of the ethical features of trusts or combinations," Mr. Lybrand continues, "it may not be inappropriate to consider for a moment the evils which in the public mind seem to be indissolubly associated with them. First of all is the dread of monopoly. To what extent this fear is justifiable it is difficult to determine. Even where a combination has a virtual monopoly, there is a practical limit beyond which it can not advance in prices. If this limit is exceeded, demand for the article

ceases, substitutes therefor are devised, or the pressure of public opinion becomes so great that the most strongly intrenched monopoly must be affected by it. On the other hand, a monopoly is probably effective in influencing prices in that they can be maintained at substantially the same level, in the face of reduced costs of production due to the introduction of improved manufacturing processes, thus depriving the consumer of the benefit of at least a part of the widening margin between cost and selling price which would probably accrue to him under the régime of competition. It will be argued by others, however, that the greater profits result entirely from the economies of combination, and that therefore the additional margin equitably belongs to the producer, as the consumer, under competition, would have been no better off than is now the case.

"The temptations of fraudulent promotion and speculative management are other evils ascribed to the combination. It is claimed that earnings which were used as a basis of capitalization have been overstated, either intentionally or ignorantly, by the failure to include among the expenses of operating the full cost of maintaining the property, or a proper provision for renewal of the plant through whose operation the earnings were produced, but which must obviously deteriorate in value because of that use, or become obsolete through the introduction of improved appliances. The more serious charge has been made and proved to the satisfaction of many, that constituent companies acquired at one price by the members of a syndicate have been sold directly or indirectly to themselves as directors of the holding company at greatly enhanced amounts. Speculative management, with one eye on the ticker and the other on the profit and loss statement, has been alleged, with the attendant evils of a property 'skinned' to show large earnings, or the payment of dividends unearned, or at least unwarranted from the standpoint of financial expediency.

"It is alleged that the holding company adds to the complexity of corporate organization, admits the accumulation of debts in the affiliated companies, the piling up

of deficits in some companies without provision therefor in the accounts of the parent company, and by other devices tends to obscure the real profits or losses, thus leaving the stockholder in the dark as to the actual value of his holdings."

Numerous remedies have been proposed to prevent some of the foregoing evils. The trend of public opinion at present seems to be toward federal regulation and compulsory publicity. It would appear that a reasonable degree of federal supervision, or at least the issuance of a federal license to do business, would be welcomed by the larger corporations in preference to regulation by the individual States, each one imposing different conditions. Publicity, within reasonable limits, is rapidly being voluntarily adopted, and it seems reasonably certain that corporations conducted as "blind pools" will ultimately be relegated to the past.

James J. Hill's Opinion.—Mr. James J. Hill takes this view of the subject: "It has appeared in nearly all the investigations conducted under the Sherman Anti-Trust Law, that the small competitor still exists; that as soon as he is forced out or bought out, another of him appears; that no pressure is strong enough to eliminate him altogether and that the wisest concerns neither try nor desire to do so. But, in so far as the small business man is put to a disadvantage, we must consider his injury, if the principle of consolidation has come to stay, as only one more instance of the hardships that always accompany progress. As far as we can see now, the greatest number—whose good must be considered first—is benefited, just as it has been by the introduction of machinery. Yet every machine displaces many men. The printer who sets type by hand has had to find another job since the linotype has come into general use. Almost every improvement that helps the many brings injury to the individual here and there. The building of a railroad puts the owner of a stage coach out of business. All the trades have been revolutionized by the machinery that threw men out of work or forced them to learn a new

trade. But the community gains by cheapening of processes and of prices, so that the balance is in favor of the improvements. We are so alive to the blessings of progress that we are apt to forget that they cost something. But the advantage is great and sure, and the world has never refused to grasp it and pay the necessary price. On the other side of the balance-sheet we may see what this compensating advantage is. In every such industrial improvement the chief beneficiary is the working man. For his gain is double; one in wages, and another in cheaper and abundant food, shelter, and clothing. By combining several concerns in one, many economies are made possible. Useless officers and unproductive middlemen are cut off. The systems of purchase and distribution are simplified. Economies are effected by the direct purchase of material in large quantities, or, better still, by acquisition of ample supplies of raw material. This enables the United States Steel Corporation to make high profits on its immense capitalization, at prices which give to smaller concerns only a modest return."

The Spirit of Competition.—We can see how the natural impulse of two companies would be to unite, where competition was cutting the profits and life out of the business. Such a union, however, for the purpose of controlling trade is impossible under the Sherman Anti-Trust Law. What is known as the "gentlemen's agreement" has been one result; and there have been other ways of "getting around" the situation.

Fair competition promotes vigor in trade. And while the spirit of competition is keener to-day, perhaps, than ever before, there is less malice and harsh feeling between competitors in similar trades as time goes on. This is evidenced by the growth of organizations among merchants and manufacturers in the same line of business, such as national and local associations of hardware men, clothiers, and other similar associations which are formed for cooperation and protection of mutual interests.

Such organizations are evidence of a healthy business spirit.

The Difference between Competition and Opposition.—The difference between competition and opposition has been aptly summed up as follows:

Competition is the life of trade. The merchant who promotes a healthy rivalry and honorable competition will find it so.

Opposition is rank poison to legitimate business. The merchant who wastes his time clubbing his neighbors and digging pitfalls for them will find it so; he will eventually fall into his own trap.

Competition and opposition are easily confounded.

Competition is an honest man's means.

Opposition is a two-edged sword, likely to draw blood on the reckless handler.

Competition, be it ever so sharp, is tempered with fair play.

Opposition arouses passion, puts a premium on trickery and degrades business.

Competition brings improvement and activity.

Opposition suggests any scheme to injure an opponent.

Competition makes friends.

Opposition destroys friendships and makes enemies.

Competition nourishes profits.

Opposition kills them.

Competition means friendly rivalry, with honor and mutual success.

Opposition means unfriendly strife and hostility, without success to either party.

The benefits of competition are world-wide.

The evils of opposition are just as widely distributed.

IV

FINANCE

1. What Constitutes Capital

Concentration of Capital—Procedure of Local Banks—Limitations of Banks—The Problem of Finance—Capital Stock—Preferred Stock—Dividends—Common Stock—Overcapitalization—Stock Certificates.

2. Subscribed Capital

Two Sources of Capital—How Obtained—1. From Within—2. Selling to the Public—The Prospectus—The Promoter—3. Placing Stock on the Market—Curb Stocks—Speculation—Buying on Margin—Selling Short on Margin—Speculative Schemes—Governor Hughes's Classification of Investors—Publicity Methods—A Safeguard to the Investor—4. Underwriting—Underwriting Syndicates—Underwriting Methods.

3. Borrowed Funds

Four Sources—1. Trade Credit—2. Bank Accommodations—Corporation Notes as a Source of Capital—A Banker's View—Discounting Personal Paper—Distributed Maturity—3. Corporation Mortgages—The Indenture—4. Corporation Bonds—The Sale of Bonds.

4. Negotiable Instruments

Definition in General—Requirements—1. Form of Instrument—2. Wording of Instrument—3. Time of Payment—4. How Payable—Forms of Negotiable Instruments—1. *Bills of Exchange*, or "Drafts"—Two Kinds of Bills—(*a*) Inland—(*b*) Foreign—Parties to a Bill of Exchange—2. *Promissory Notes*—Parties to a Note—Execution and Delivery—Acceptance—Protesting—Indorsement—Accommodation Signers, or Indorsers—3. *Bank Notes*—4. *Checks*—Other Forms of Checks—5. *Bonds*—Specimen Bond—Classification—1. The Issuing Corporation—Class A.—Class B.—Class C.—2. Forms of Bonds.—Class A.—Class B.—Class C.—Some Provisions of the Savings-bank Law Relating to Investments—6. *Certificates of Deposit*—7. *Bank Drafts*—Legal Tender—Days of Grace.

5. Importance of Working Capital

Definition of Capital—What Proportion of Working Capital Should be Carried—Five Determining Factors—Need of Ready Cash—Borrowed Funds Legitimate—Instalment Plan of Cash Raising—Two Problems for the Corporation Management.

IV

FINANCE

1. What Constitutes Capital

BEFORE an individual, a firm, a company, or a corporation can actually engage in business, working funds, or "capital," are necessary. For this reason a special chapter devoted to the subject of the life blood of a business may serve to place before the reader certain essential facts. The problem which confronts the small merchant is exactly the same as that perplexing the Wall Street financier, except that one deals with hundreds and the other with millions.

Concentration of Capital.—As small streams gradually merge until they form mighty rivers, so the accumulations of small reserve funds in various country banks ultimately find their way to the great money centers. The great resources come primarily from the savings of the people. The little rivulets of private savings run into the national banks, private banks and savings banks, which in turn swell the broader streams flowing into the banks and trust companies of New York through the deposit of reserves in New York by the country banks. This results naturally from the fact that New York is the center of American financial operations, and particularly from the provisions of the national banking laws, authorizing national banks to count as part of their reserve the money kept in the national banks in New York. Through these agencies the surplus capital of the country not required for local exchange finds its way into New York banks and there rests at interest. The larger and more enterprising among the latter have been quick to avail themselves of these conditions to

offer inducements to the country banks to give them their reserve deposits.

Hence, banks like the Chase National Bank, the National City Bank, the National Park Bank, the First National Bank, and the Hanover National Bank have hundreds of country banking accounts which go to swell their deposit. The aggregate deposits of these five banks alone, June 30, 1910, due to other national banks was $160,332,404 and the amount due to trust companies and savings banks was $113,157,184. These are the most concentrated of the country deposits, but they are only representative of many more scattered among the fifty-odd clearing house banks of New York and the powerful trust companies which are outside the clearing house.

Procedure of Local Banks.—What is of immediate interest to the small merchant or firm, however, is the source of funds for his or their own business. The rule of local banks is usually that loans will be granted a regular depositor to the total amount of three, four, or even five times the amount of his average running balance—this, of course, depending upon the nature of the business and quality of the security offered. If a merchant owes his bank $10,000, he should carry a daily balance of at least $2,000. This margin is both one of safety for the bank, and also a source of its profit. Country banks are required to keep 20% reserve of deposits. The remainder can be loaned elsewhere. Of this reserve, one-half, or $200 (in the present example) can be sent to New York, where it is subject to call, but, in the meantime, draws interest.

Limitations of Banks.—These funds sent from the many smaller banks to the few large ones we may call surplus capital; and it is this ebb and flow of usable funds which allows the local merchant at one end of the line to increase his business, and the city financier at the other to "float" a railway or corporation.

The large central banks, however, can not lend money indiscriminately to new and speculative enterprises. For

them only the securities of enterprises of well-established character and success are permissible investments. But more venturesome projects, like a new line of a railway in a thinly settled country, have to be supported by somebody if these improvements are to be brought within reach of the public. These ventures are made by rich men—sometimes individually, but more often in groups or syndicates. These men hazard their own fortunes in buying new securities, sometimes long before they have paid a dividend. Under the modern mechanism of finance, however, it is not necessary for these rich men and syndicates to advance the new capital for a new project. They are able to obtain the aid of the banks by advances upon securities, taking the risk of loss. It is in the decision of what enterprises they shall favor that the question of their wisdom and foresight lies. If they trust the future too far, and the enterprises fail of success at the time expected, then they must either carry them along by extending their loans, or must lose their own investments which they have made upon the margin of risk. The bank, in the meantime, which has advanced money upon their stocks, protects itself by calling for more advance, and by promptly closing out the securities if it is not forthcoming.

The Problem of Finance.—The problem of finance, therefore, is many-sided. It confronts the small bank and the large one. It must be solved by the local merchant, and by the capitalist. It confronts the private investor making a safe venture, and the promoter who disposes of stock. Nevertheless, its essential principles are bound to remain the same.

Whether a business is large or small, it must derive its funds either from within or from without—that is, either by subscription or loan. If a company or corporation is formed, it must have some tangible assets, or paper representing such assets, to exchange for the capital to be derived. Such assets, or instruments, are known as Stocks, Bonds, and Mortgages. This brings us to a definition of Capital Stock.

Capital Stock.—The total amount of money represented by the issue of shares of stock in any concern or enterprise is known as Capital Stock. The number of shares into which it is divided is subject to the wishes of the organizers, but is always stipulated in the charter. Thus a capital stock of $100,000 may be divided into 1,000 shares of a par value of $100 each, or 10,000 shares of $10 each; or (in some States) 100,000 shares of $1 each. Shares of stock are frequently divided into two classes, *Preferred* and *Common.* There may also be two issues of Preferred.

When a corporation is in need of funds and wishes to obtain some by sale of stock, the entire stockholding body—preferred and common—may consent to another issue which will take precedence as to dividends over both existing issues; the new stock is known as *First Preferred,* the old preferred becomes the *Second Preferred* and the Common remains as before.

Preferred Stock.—The Preferred Stock, as its name implies, carries with it the specific privilege of being given the first profits, or dividend accruing to the company. For example, a five per cent preferred means a stock on which the company promises to pay $5 for each $100 represented, out of the first earnings of the company. If the par value of a share is $100, no matter what may be the selling price of the stock on open market, the dividend would be the full amount of $5. There may be other privileges attaching to Preferred Stock, and in order to ascertain these reference should be made to the charter or by-laws. It may be preferred as to assets as well as to dividends, or both.

It may have a fixed dividend, or share the surplus, after payment of the Common Stock dividend. Preferred Stock appeals to those investors who do not care for speculative enterprises, but prefer only investments of a specific character.

Dividends.—A dividend is a payment by a company to its shareholders, based upon the profits of the con-

cern. A dividend may be: (1) cumulative, that is, if the profits for the first year or more are not enough to provide for the dividend payment, the amount due remains as a burden upon future profits, which must be cleared off before any other dividends are paid; or it may be (2) non-cumulative, in which case, if the profits are not sufficient to pay the dividend specified, the unpaid portion is never paid to the shareholders. No right accrues to the stockholders to share in the profits of a corporation, however, until a dividend has been declared by the Board of Directors.

Common Stock.—Common Stock is so called because no specific dividend is promised on its behalf by the company, at the beginning of business. In other words, it does not share in the profits until after the dividends accruing to the Preferred Stock and other obligations are fully paid. Even then it is not entitled to share in the earnings, as the declaration of a dividend upon this class is left to the option of the company. It is called "watered stock" when it does not represent any actual value in the plant itself, but is based only upon the probable earnings of a company.

On the face of it, Common Stock does not seem to be as good a purchase as Preferred. There is, of course, more element of risk. But in many instances it has proved far more profitable, since there is no set limit to its earnings, as in the case of Preferred; and the initial cost (which must not be confused with par value) is usually small in comparison.

Overcapitalization.—"There is one plain evil," says James J. Hill, "connected with the creation of certain great corporations that has not been corrected, although it is easily reached. The valid objection to many concerns, especially those known as industrials, is that they appear to have been created in the first place not so much for the purpose of manufacturing any particular commodity as for selling sheaves of printed securities which represent nothing more than the good-will and

prospective profits of the promoters. Nearly all the large concerns engaged in manufacture or trade that have come to grief owe their downfall to excessive capitalization. This is a real menace not only to their successful existence, but to the public which pays prices based to some extent on the desire to make profits on more than the money invested."

Nevertheless, there are many sound arguments in favor of capitalizing an undertaking for an amount in excess of its tangible assets where the average earnings for a period of years have been greater than say 10 per cent. For instance, a business with net assets of $100,000 conducted as a partnership may have been earning net profits of $25,000 for a number of years. The purpose of incorporation being to fix the respective interests of the partners and also to sell some of the stock to employees and others, it is not to be expected that the capital stock will be limited to $100,000, for that would mean an amount equal to only four times the average net earnings and would necessitate selling the stock at a price considerably above par. If the capital is fixed at $200,000, the earnings would still represent 12½ per cent per annum thereon. In this case it is true that there would be an account entitled "Good-will" among the assets representing $100,000, but a comparison of many enterprises will reveal the fact that the good-will of some yields far greater earnings than the tangible assets of others.

Stock Certificates.—A Stock Certificate evidences ownership in a corporation; the issuing company records its outstanding stockholders in its Stock-Books, noting the names, addresses and number of shares held; certificates may be issued for one share or more; for fractional parts of a share scrip is given, which latter may be exchanged for a full share when a sufficient amount of additional scrip necessary to complete a share of stock is acquired. Ordinarily scrip does not participate in dividends.

To comply with a ruling of the New York Stock Ex-

change, stock certificates are usually issued in lots of one hundred shares each or less, as certificates in greater amounts than 100 shares are not a "good delivery."

Stock certificates are transferable only upon the books of the issuing company, although they pass from hand to hand by barter or sale and the new owner is entitled to all dividends declared after he acquires possession; if the stock has not been transferred to his name, his broker collects such dividend from the person in whose name the certificate was registered at the time of the closing of the stock books of the corporation. In case a certificate is lost it is customary for the corporation to demand a bond of indemnity from the person desiring a duplicate issued.

2. Subscribed Capital

The discussion of the subject of ready funds obtainable for a business falls under two heads: 1. *Subscribed Capital,* which may also be called Owned Funds; 2. *Borrowed Funds.* The latter source will be described under its own head. Subscribed Capital, which will be discussed in the present section, is that of the stock itself. Such stock, as we have seen, is divided into shares, and each purchaser of one or more shares becomes a subscriber to, or part owner in, the company and exerts a corresponding influence in its affairs.

Although in scanning the published balance sheet of a corporation it is customary to find the subscribed capital listed at the head of the liabilities, yet it must not be confused with borrowed funds which constitute a real liability which must be discharged at maturity; the subscribed funds represent ownership and accountability and are only considered after all other claims have been settled.

How Obtained.—One of the main problems which confronts the promoter or organizer of a corporation is how to obtain immediate capital for starting and conducting the new company's affairs. Later on comes the

question of additional funds to keep the company going, but for the present let us consider how owned funds are obtained. There are four accepted methods: 1. From within. 2. Selling to the public. 3. Placing stock on the market. 4. Underwriting.

1. From Within.—Where the number of incorporators is small and they are actively engaged in the business, it is simple enough. In order to make it a "family" concern, the incorporators themselves advance the required funds without recourse to outside aid. The total amount of capital subscribed need not be paid in at once, though it is specified by charter that amounts varying according to the state of incorporation should be in the treasury before commencing business. These requirements should be investigated by any outside persons who may purchase stock in such concerns.

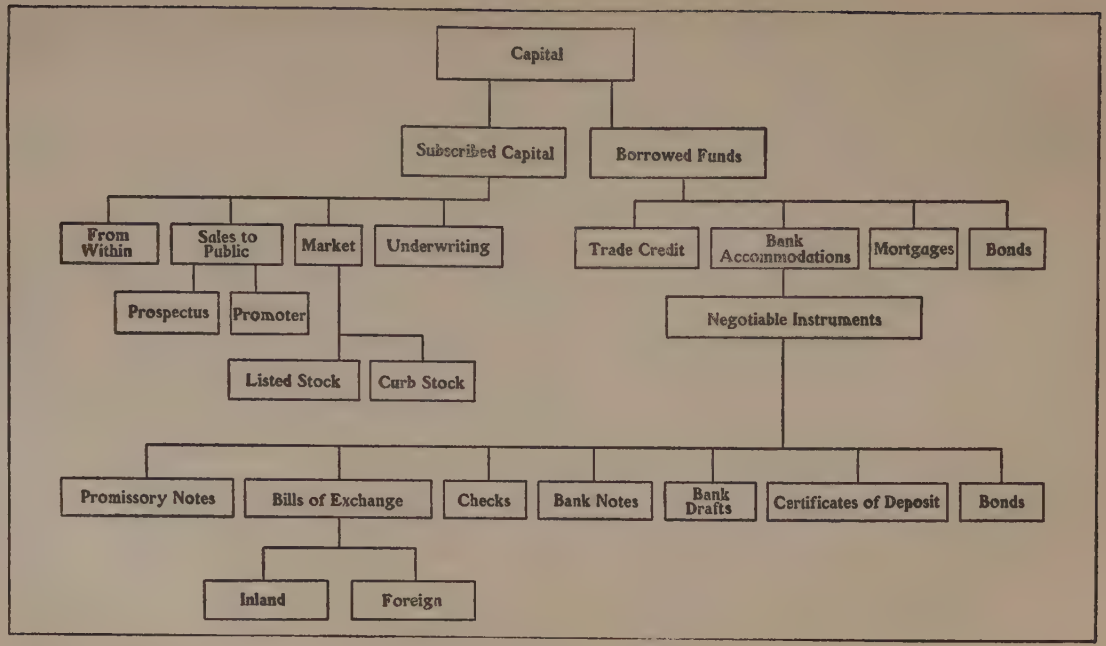
2. Selling to the Public.—The second method is to interest the investing public in the corporation. The public divides itself into two classes: those prudent people who demand an investment which is safeguarded, and which will not, so far as human minds can foresee, depreciate in value, and the speculative who are prepared to take chances, knowing that if all turns out well their profits will be larger than with the safer investment. Most corporate stock is of the speculative class, giving returns of 6 or 7% and upward, and appeals to:

1. People unskilled in business, reached by advertising and circulars;

2. Business men taking chances, reached by stock market and personal solicitation;

3. Speculators wanting quick returns, reached by stock market.

The public is invited to buy stock by means of (1) advertising in magazines and newspapers; (2) issuing personal and circular letters, or (3) through salesmen. In schemes where there is a speculative risk, the last is the most usual. The first step is the preparation of a prospectus.



DISTRIBUTION OF CAPITAL

The Prospectus.—The prospectus is the company's general announcement and advertisement to the investing public at large. The function of the prospectus is entirely legitimate. It should give interesting facts of the prospective business, based upon opinions of experts, or statements certified by public accountants. It should state exactly the amount of stock to be issued, how issued, and for what purpose. Much depends upon the outer appearance and inner wording. A good prospectus can not fail to appeal to a public whom an unconvincing one would repel. It should be attractively produced in every respect, on good paper, well written, printed and bound. Good clear illustrations showing plant, territory, etc., are always of value. It goes without saying that the prospectus should bring the best features of the business into prominence, while weak points may be hurried over, without necessarily misstating or hiding any material fact which might lead to a charge of fraud, or to the voiding of the sale.

The honest, successful prospectus will play up the selling points in good bold-face type and reenforce them by statements of authorities. It will draw attention to the special field occupied by the enterprise and its possibilities for profit, and point to the success made in similar lines by other companies. It will give careful facts, statements, and other specific data wherever possible. Such a prospectus, while more likely to be successful in the sale of stock, will avoid the disreputable flavor into which many publications of the shady type have fallen.

While prospectuses are still widely employed in this country, they have not been held in such high repute here as in England. To quote one instance of their strong selling power in England, the Eastman Kodak Company floated its entire issue of stock in that country by this means, aided, of course, by advertising and circularizing.

The Promoter.—The most important factor in the financing of a corporation is the promoter. He it is

who sways the balance of finance in the direction of his corporation, taking care to make his services a matter of sufficient recompense. Considerable stigma is attached to the word promoter, but as Congressman Robert Baker has said, "The proper function of a promoter—as of a trust—is legitimate and altogether commendable. He performs a real service and, like all who do that for society, is entitled to and can command a compensation commensurate therewith." The most successful promoters in America to-day are those bankers, lawyers, statesmen, etc., who are not regarded as promoters at all.

Speaking of the United States Steel Corporation, Mr. Baker says: "What the firm of J. P. Morgan & Co. received as its promoters, I have never heard, but I have been told that, acting in a like capacity when the National Tube Company was formed, they received one-eighth of both its preferred and common stock, the total issue being $80,000,000. Will any one contend that the amount the firm received for organizing the National Tube Company—whether it was more or less than the above amount—came to them as bankers, or even as investors? Certainly no one familiar with such flotations will so contend. It was as 'promoters' they obtained it. So with most railroad enterprises. Was it as bankers or investors that Stanford, Huntington, Crocker, and Hopkins got possession of their enormous fortunes? No. They were obtained by 'promoting' the Pacific railroads. In their case, as in so many others, they combined promoting with exploiting. They secured enormously valuable, special and exclusive privileges of building railroads through virgin territory. Then they 'promoted' those privileges, in so doing getting possession of hundreds of millions of dollars. The same process has been gone through with in the case of gas, electric light, telephone and telegraph franchises, as well as with those for street railroads—surface, elevated, subway. Here the promoter is frequently the one who has induced a board of aldermen or a State legislature to give him a franchise to control such public utilities."

The functions of the honest promoter, however, are entirely legitimate. Whoever devotes his talents to the promotion of new enterprises, thus bringing together the man who has an invention, or who wishes to start a factory, with the man who has capital to invest, or whoever secures additional capital for the extension of existing enterprises, is performing a real service—a service as beneficial and genuine as that performed by the merchant, manufacturer, ship owner or banker. In our complex economic arrangement there is need of such men. Their avocation should no more be condemned, because of the crooked acts of some who engage in them, than should lawyers, bankers, merchants, manufacturers or ship owners be generally condemned for the shady or criminal acts of some who follow these professions and trades.

It would, however, be a distinct advantage if all acts of promotion be so classed, and not as banking, merchandizing, manufacturing, or as the practise of the law. Investors might also find it profitable to analyze great promotions for the purpose of learning what proportion of the great fortunes were obtained from services as bankers, merchants, and manufacturers. The most important field of activity for the promoter, nowadays, is that of the consolidation of the industrial and railroad corporation; that is the trust movement. Smaller concerns are, however, now often combined, so as to decrease expenditure, the cost of manufacture being less according as scale of production increases. The isolated firm is now becoming a thing of the past and its position is insecure. The corporation can raise funds more easily and with a greater degree of surety. Hence the field of the modern promoter.

3. **Placing Stock on the Market.**—A third method is to place the stock directly upon the market offered by the various stock exchanges; to do this successfully, however, a corporation must have been in business some years and the public must have been acquainted with its financial condition. The New York Stock Exchange is the principal market of this kind, but here the stock of a corporation

is admitted only if approved by the Listing Committee to which it is necessary to submit exhaustive data as to its genuineness, stability, etc.

Curb Stocks.—There is still a third class of stock, issued by corporations whose transactions can not be inquired into too closely, or whose schemes are of a highly speculative order. For the sale of this stock, the Curb Market is open. To do business there, a broker must have financial standing and reputation, despite the fact that the market is held in open air. There are many high-grade stocks also sold here. The usual commission charged by exchange brokers is ⅛ of 1 per cent of the par value, or 12½ cents a share, with a minimum charge of $1. In New York State a tax of two cents per share on $100 par value is levied on sales of stocks. While dealing here with the Stock Exchange, mention may be made of the methods of speculation.

Speculation.—Business may be done in stocks without actual transference on the part of the speculator of certificates from hand to hand. Speculators accordingly gamble upon the rise or fall of the market, their brokers acting for them, and this forms the greater part of the business done on 'Change. The two methods most practised are:

(a) **Buying on Margin.**—The speculator deposits with his broker a sum usually 10% of the par value of the stock he wishes to buy. The broker executes the order, and carries the shares for the account and risk of his customer, who is charged interest on the amount advanced by the broker to complete the purchase price. When the shares are sold at an advance, the difference between the purchase and sale prices, minus commission, interest, and (in New York State) revenue stamp charges, represents the profit on the transaction.

(b) **Selling Short on Margin.**—The speculator deposits his 10% margin. The broker executes the order to sell.

When called upon to deliver the shares he borrows the stock in the "loan crowd" (where stocks are lent on payment of the market price, which is returnable with a low rate of interest coincident with the return of the stock). If the price of the stock declines, the speculator's broker when ordered buys stock equal to that borrowed, but at a lower price, replaces the borrowed stock with it, and the difference in value, minus the interest, commission, and revenue stamp, is profit.

Speculative Schemes.—"There are many methods in vogue for inducing people to part with their money," says John Moody in *Moody's Magazine,* "but the most effective way to interest a certain very considerable portion of the American public in propositions with this ultimate purpose in view is through what is known in Wall Street as the 'get-rich-quick' scheme. It is an old saying that the American public likes to be fooled, and judging from the way these many fraudulent schemes keep bobbing into sight with never-ending regularity, it would seem that the saying has lost none of its truthfulness.

"A well-known get-rich-quick scheme which fooled a large number of supposedly sane investors was the promotion of the 'sea water gold' enterprise a few years ago. A certain man named Jergensen, who was more avaricious than honest, happened to discover an article in an encyclopedia which brought to his knowledge the fact that sea water contains a small percentage of gold, but that no method had ever been discovered whereby the separation of the two could be brought about. He then devised a scheme for pretending that he had himself invented a secret process for doing this very thing, and thereby induced investors to pass their ready cash his way. He built a small plant on the water's edge at South Lubec, Maine, a portion of the plant being constructed out of sight, and under water. He then secured a small quantity of gold bullion (a small genuine gold brick) and exhibited it to certain people in the city of Boston, at the same time making the statement that it was the result of a test of his secret process for washing gold from sea

water. His incredulous listeners were invited to go to the government assay office with him to test the genuineness of the little brick. This they did, and to their surprise, found that it was all pure gold. Then, as a further proof of his discovery, Jergensen invited them to go to South Lubec with him and see his plant. They did so, and saw the mysterious looking machinery, part of which was under water. They were duly impressed. He then explained that he could not let them see how he did it, as he must naturally guard his secret. But the next morning he appeared with a new can of gold dust, which he said he had secretly washed out during the night. After that, for a whole week, while his visitors remained, he appeared every morning with a quantity of gold dust which he exhibited as a result of the previous night's work. As this production steadily continued his audience grew. Others came on from Boston, and the wonderful discovery was on the lips of a steadily increasing number of people. When he next went to Boston, taking the gold-dust with him, and converted it into cash at an assay office, many apparently shrewd people were thoroughly convinced and regarded his claims as absolutely proven. He then organized a company and began to sell stock, and, as the snowball had begun to roll, it very quickly increased to gigantic proportions.

"Within a short period, investors in Boston and vicinity were sacrificing good bonds and stocks, withdrawing savings-banks deposits, and generally falling over each other in a mad rush to get in on the ground floor of the sea water gold bonanza. It was afterward estimated that before the fraud was publicly exposed, Jergensen and his accomplices had secured nearly a million dollars. The final outcome was, that Jergensen secretly escaped to Europe with most of the money, and his victims are whistling for their 'great profits' to this day."

Governor Hughes's Classification of Investors.—Governor Hughes's Stock Exchange Investigating Committee classified patrons of the Stock Exchange as:

1. Investors who apparently examine the facts relating

to the value of securities or act on the advice of reputable and experienced financiers.

2. Manipulators, whose connection with corporations issuing or controlling particular securities enables them under certain circumstances to move the prices up and down.

3. Floor traders, who keenly study the markets and general conditions of business and acquire early information concerning the changes which affect the value of securities.

4. Outside operators, having capital, experience, and knowledge of the general conditions of business.

5. Inexperienced persons, who act on interested advice, "tips," advertisements in newspapers or circulars sent by mail, or take "flyers," in absolute ignorance and with blind confidence in their luck.

Of these five classes of "Wall Street operators," the public interest is chiefly concerned with the investor. In all the leading countries legislation of some sort has been enacted to protect him against fraud and deceit and to insure him some degree of safety in his legitimate operations. Absolute safety in investment operations, however, though guarded by the most careful considerations, can never be assured. Some element of speculation and risk enters into all business transactions.

Publicity Methods.—For a number of years leading railroad companies have been furnishing a vast amount of detailed information in their annual reports and the market for their securities has improved in consequence. Industrial corporations are following the example of the railroads. The most striking case in point is the United States Steel Corporation, which keeps its holders of securities fully informed of its condition and progress. Other corporations are also awakening to the fact that little is to be lost and much to be gained by taking the public into their confidence.

Legal requirement of publicity for ordinary business corporations in the United States under present conditions is highly impracticable. Such regulation is effective and

desirable only for those in public service. Massachusetts requires the submission by business corporations to the State authorities of an annual balance sheet of moderate fulness, and the corporation laws of Michigan have a somewhat similar requirement; but owing to the inability to ascertain the accuracy and adequacy of the statements submitted, these provisions are almost worthless. State supervision over publicity of business corporations aims at the protection of creditors rather than stockholders. Any advance beyond this theory involves an additional governmental function unsuited to American methods of doing business.

A Safeguard to the Investor.—One of the rules of nearly universal application, which will usually go a long way toward the protection of the investor, is this: Always question any proposition offering stocks or bonds for sale where such offers are made directly by the company itself, and not through a banking house or other reputable concern. If no bankers are handling the sale of securities, there is reason to suspect something "shady" about the scheme. There are exceptions of course, but not many. If the securities are offered by bankers and brokers, the next step should be to ascertain the standing, reputation, and financial strength of the bankers or brokers themselves. Wall Street and the other financial centers of the country have their full share of irresponsible concerns of this class.

The apparently plausible statement is frequently made that money is saved to the company and its stockholders by avoiding the employment of a banker or agent to market securities. But this is not so in ninety-nine cases out of a hundred. If a proposition has merit, the promoters always find it much more economical to go to a concern who have specialized and have developed the right machinery for the floating of securities, rather than undertake to do it themselves. The banker not only has the clientele, but he has the organization for handling the business effectively and economically; and, of course, his prestige and general reputation have, in many cases,

much to do with making the flotation a success. For all this he frequently charges a good round commission; sometimes, but not so often as is generally supposed, too much. Indeed, it would, in most cases, upon investigation, prove to be a fact that, without the banking medium, the flotation would cost far more than the usual amount represented by an apparently heavy discount or commission. It is a part of the business of a banker to float securities, just as it is a part of the business of a trust company to pay coupons.

Investors sometimes question why a large corporation, with an office in New York City, should pay a commission to a trust company to cash the coupons on its own bonds each six months, when it might apparently do this work itself. This answer is, that the trust company maintains the machinery and organization for paying the coupons of not merely one but of perhaps one hundred companies, and, therefore, can afford to do such work at a minimum cost, much less than the corporation itself could possibly do the work.

4. Underwriting.—The best known and most usual method of floating corporation stock is through the agency of well-established brokerage or banking houses. Sometimes a financial house may not only agree to sell stock or bonds on commission, but holds itself responsible for the disposal of the whole amount, agreeing to take all unsold stock left at a certain figure, usually 5% to 10% below par value. This method presents many advantages to the corporation, the underwriter, and the buyer of securities as well.

The corporation usually has no facilities for the sale of stocks and bonds. But when they are taken up by an underwriting firm or syndicate of established repute, the corporation is stamped with some degree of guarantee that its wares are good. The time of payment is stated and the attendant risk is removed.

The underwriting firm on its part, has an established list of patrons, and can dispose of the stocks and bonds at a good commission. This gives to the buyer also the

financial authority and assurance of a good firm, since the financial house must keep an eye on the corporation for its own sake and that of its clients as well.

Underwriting Syndicates.—By experience it has been found inadvisable for one firm, however powerful, to guarantee the sale of a large issue of securities; and in order to divide the burden of risk, several houses may combine to form an underwriting syndicate. Many houses refuse to underwrite more than a certain amount of securities, risk or no risk. There are other reasons for forming syndicates. Each house wants to have a variety of stocks or bonds to sell to clients. Sales may be made easier by having a combination of firms in different business centers. One of the methods of forming a syndicate, is that in which a big financial house has bought a large issue of stock or bonds and wishes to spread the risk. The underwriting house offers blocks of the issue at reasonable prices to other houses and individuals, entering into agreement with them in connection with the contract about to be made between the corporation and the original underwriters.

The commonest form is where the syndicate members deal directly with the corporation and not with a banking house, putting themselves under the management of one individual, or of some one house. A special example may be given. Several houses, A, B and C, form a syndicate under the leadership of D and Company to underwrite the sale of a bond issue of $2,000,000. They agree to sell all bonds to the public at 95. They buy the bonds themselves at 90. In addition A personally agrees to take one-third of all the unsold bonds at 90. B and C take proportions also. All the bonds are left for sale purposes with D and Company. Thus the entire issue is covered. There are attendant risks, but they are usually light.

The largest and strongest of the banking houses associated with several of the national banks form one class of dealers who may be considered as wholesalers, buying and selling annually anywhere from $100,000,000 to

$300,000,000 worth of bonds each. They are the class of great underwriters. They act as the fiscal agents of large groups of railway corporations, and when any company of the group has an issue of securities to be put upon the market, the banking house generally has the transaction completely in its charge. Railroad issues constitute the greater part of the underwriting by these houses. But they often bid for entire issues of municipal bonds, the bonds of a state or even large blocks of Government securities, although the nature of bids for these public bonds is different from their transactions with the railways. They enjoy peculiarly close relations with these latter corporations, while in the case of public bonds numerous bids by others are usually made. The business of these houses is so thoroughly established, they can command so much capital, borrow so heavily and make such substantial profits, that they do not hesitate to purchase blocks of bonds in great amounts.

Underwriting Methods.—Financial underwriting may be termed a type of insurance which involves risk. All insurance companies assume the risks of fire, death, and the like, while the banker or group of bankers who underwrite an issue of bonds accepts the risk of possible loss through a dull market. In the case of some large issues of bonds the original bankers or members of the syndicate are known publicly, for the newspaper advertisement setting forth particulars of the issue is generally signed jointly by the banking firms. It is very often the custom for each of the participating bankers to form another syndicate in order to minimize the risk, which is in effect a distribution so far as they are concerned. Individuals of wealth and those who command capital, trust companies, banks and smaller bond dealers may be the members of this sub-syndicate, as we may call it; and upon them in turn is the task of the real distribution among final investors who take the bonds, locking them up for the interest return until maturity date.

There is no stereotyped method as to the formation, conduct and personnel of these syndicates. In the case

of several large houses underwriting an issue, it amounts to little other than a division of the issue among them, subject to the operations of the sub-syndicate.

A written record of the conditions and terms is drawn up, this record being known as the syndicate agreement. In this agreement are provided such matters as the price at which members shall receive their bonds, the details of management, the question of the length of time the syndicate shall remain open, and other similar matters. A member of the syndicate may endeavor to dispose of his allotment, or have the allotment withdrawn from sale for a specified time, in which event the price to this subscriber would be slightly under that made to others. After the stipulated time has expired, his bonds can be placed upon the market; but their absence from the market while other members were selling, enhances in a measure the ability of others to distribute their holdings.

3. Borrowed Funds

Working capital secured in any other way than from the sale of shares of stock—denoting part ownership in the concern—may be termed Borrowed Funds. There are four recognized sources for raising such moneys, each of which will be discussed in turn:

1. Trade Credit.
2. Bank Accommodations.
3. Corporation Mortgages.
4. Corporation Bonds.

1. Trade Credit.—Funds derived from the creditors of a firm are simply those obtained through deferred payments on goods, otherwise known as buying goods on credit. This is a recognized and established business system, and can be readily arranged if one's company is of sound basis and reputation. The rating houses of Dun and Bradstreet furnish information in regard to business standing to all prospective creditors who subscribe to their service. Credit is usually extended for 30 or 60 days, the creditor sometimes requiring a prom-

issory note. Notes are accepted, however, only in certain lines of trade, which will be found more fully discussed elsewhere, in volume three. (See *Negotiable Instruments,* in this volume, and *Credits,* volume three.)

2. Bank Accommodations.—A company may obtain needed funds from a bank either by borrowing directly on its own paper, or discounting the paper received from other concerns. Direct loans are not usually granted unless first-class security is offered, and the period is short. An exhaustive form showing assets, liabilities, contingent liability, insurance, business and results, dividend paid, bad debts, etc., is provided, which some banks require to be filled in before credit is allowed.

When a note of another house is discounted, it is indorsed by the firm receiving the net proceeds after interest is deducted, and the indorser thereby assumes a contingent liability for the payment of the instrument by the maker at maturity.

Corporation Notes as a Source of Capital.—Promissory notes of a corporation may be given in order to raise funds from (*a*) concerns which supply merchandise, (*b*) banks, or (*c*) the public. We have already seen how and to what extent they may be issued in the first two cases; we have now to consider the third case.

The form of the note is substantially the same in all three cases. It is a simple promise to pay and must contain the features that are essential to all valid negotiable notes. As a general rule, the power to bind a corporation in this manner does not belong to an officer unless it is expressly conferred on him. Nevertheless, the note of a corporation signed and in the hands of an innocent holder for value is usually binding, even if the signer acted beyond his powers. Technical objections to a note, based on its improper execution or on unauthorized uses of the money borrowed, are not usually upheld. It is worth noting also that the corporation signature should be used. Notes signed by officers in their own names, even if their corporate titles are given, or notes containing such words

as "jointly and severally promise to pay" may be held to be personal obligations.

A Banker's View.—The subject of bank accommodations is one upon which there seems to be some doubt. A prominent banker's advice throws light upon their side of the transaction. Mr. James G. Cannon, President of the Fourth National Bank, New York, says: "A well-known writer states that the leading subject of a banker's daily education is to learn whom to trust. Many bank officers have no careful system of investigating the credit of those who borrow money, and simply rely on their intuition, so to speak, or upon some evidence which has descended to them from the past record of the customer. Every bank should have a well organized and thoroughly equipped credit department, and the person in charge should be relied upon to investigate carefully all names referred to him by the officers. I am aware that there is on the part of many borrowers a strong feeling against having their credit investigated. A man who wishes to borrow money from a bank should have the same feeling toward that institution as a merchant who goes to a wholesale dealer to buy goods. The latter has a commodity to sell, and before shipping the goods requires a statement of the purchaser's condition, together with any facts that will aid in determining the line of credit to be granted. The bank officer has a commodity to sell—money—and he should be doubly sure of the party to whom he is loaning or selling it, because the money he loans does not belong to him, but to the bank's stockholders and depositors, and is held by him in trust; consequently the utmost care should be taken when granting accommodation to customers or purchasing commercial paper. There seems to be a disposition on the part of a large number of people, who borrow from banks or sell their paper in open market, not to give the banks a full statement of their condition. To me this seems a false position for men to take, and I contend no matter how sound a firm may be, when they desire to borrow from the institution where they keep their account, or sell their

single name paper (which is merely an unsecured promise to pay a certain amount of money at a given time), they should, without any hesitancy, make a full and frank showing of their condition. When a man refuses to make a statement you may feel confident of one or two things: either that he has a false pride, or that he is shaky and has something to conceal—most likely the latter. Customers of banks should always recognize that, by making a statement and thus receiving the good will of the officers, it will be the means of procuring for them a much higher degree of credit with all parties with whom they trade than they might otherwise receive."

Discounting Personal Paper.—In the evolution of the banking and credit system during the last twenty-five years, the practise has grown up of firms and corporations borrowing money in the open market on their single name paper. It used to be the fashion to criticize single name paper, as it was assumed that raising money in this way was a kiting operation. Many things have brought about a change in public opinion and to-day about two-thirds of all the paper purchased by our banks, it is fair to say, is single name. Single name makes no pretense to being anything else than it appears —a simple promise to pay, based on a statement of facts which every intelligent banker should try to obtain for himself. The system of borrowing on single name paper is particularly confined to our American market, because our banking system is so entirely different from the European banking systems. In European countries with their system of Central Banking and their public discount markets, the merchant draws his bill on a bank to whom he is accredited, this bill is accepted by the Bank, and has become a current article of sale in the public discount market. In the absence, therefore, of this system of drawing on a bank with whom the client is accredited, the merchant in this country is obliged to issue his single name paper, and the single name paper has by necessity and by experience become one of the most valuable assets of the commercial banks of this country.

Distributed Maturity.—Every firm or corporation which sells its paper should use great care in making it mature in well-distributed amounts in any given month. When a merchant sells his paper he is much more apt to use prudence regarding his own credits, as his paper is scattered all over the country and he does not know who holds it; consequently he must be prepared to pay it at maturity. Whereas, if his paper is held by a given number of banks and his customers are delinquent and come to him desiring further time, he goes to his banks and asks for a renewal, with the result that his portfolio is likely to be filled with slow accounts and the bank has secured a permanent loan. But by selling paper the merchant makes better sales of his own merchandise, makes better collections, and by meeting his paper promptly at maturity keeps the assets of commercial paper buying banks in more liquid condition. A merchant who sells his paper must keep his assets clean and his stock of merchandise in salable shape in order to maintain the highest credit.

3. Corporation Mortgages.—The simplest way of borrowing long time funds as practised by small corporations, is by ordinary mortgage on the corporation's real property. Where large sums have been raised, it is done by offering mortgage bonds to the public, and as each bond can not be secured by a separate mortgage, the mortgage should be placed with some concern or individual, to act as trustee for the bondholders, so that the mortgage indenture is transformed into a deed of trust. The bond itself is like a note: a simple promise to pay, but in more formal form, executed under seal of the corporation, and referring to the indenture between corporation and trustee. The indenture is a widely comprehensive document extending in length sometimes to 100,000 words, in which the rights and obligations of the corporation, the bondholder, and the trustee are detailed, and the mortgaged property described so as to be clear from confusion of any kind. It is a synopsis of the whole transaction.

The Indenture.—The indenture, in fact, is an important essential, which should cover all of the following points in exact terms:

1. Date of inception of contract.
2. Names of parties to the contract, *i. e.*, the mortgagor and the trustee for the bondholders.
3. Preamble, which contains five items setting forth the following:

(*a*) The identity of the parties.
(*b*) The authorization of the debt.
(*c*) Formal declaration of the debt itself.
(*d*) Manner in which the bonds are to be issued.
(*e*) Copy of the bond, the coupon, and the Trustee's Certificate to appear on each bond.

4. Clause which constitutes the deed of the property which shall be the security for the debt.
5. Four provisions as to the disposition of the various funds:

(*a*) For payment of principal and interest.
(*b*) That no other lien shall be created upon the property that shall be prior to the debt in question.
(*c*) For payment of taxes.
(*d*) That funds borrowed will be used only in the manner authorized.

6. Remedies in case of default of any of the following:

(*a*) Non-payment of interest when due.
(*b*) Non-payment of principal when due.
(*c*) Non-observance of agreement.

7. Defeasance clause, which provides that the deed shall become null and void when the debt has been fully discharged and all agreements carried out.

It will thus be seen that too great care can not be exercised in the wording of this instrument. Failure to specify its exact conditions might result in a faulty document and endless legal trouble.

4. **Corporation Bonds.**—The commonest type of mortgage is that in which there is named a maximum number

of bonds, part of which is issued at once. The rest may be sold at intervals, usually a given number each year, upon the acquisition of additional property. The subject of bonds, together with a definition and classification of the various types, will be found below under *Negotiable Instruments.*

The Sale of Bonds.—Dealers in bonds are numerous. Some of these are banking houses of importance which sell from $50,000,000 to $150,000,000 worth of bonds yearly. Some deal exclusively in municipal bonds, others in railroad securities, while others handle industrial issues. It is through these firms largely that the great investing public of the country is reached. Their organization is highly developed. One of the most valuable assets of such a house is the list of customers' names. In evidence of this fact $25,000 was paid not long ago by a house for the return of a duplicate copy of its list which had been misappropriated by a former salesman. There are perhaps a million investors, large and small, in this country; and it is these that the retail bond dealers seek to reach. Not only do these houses advertise extensively and have voluminous correspondence, but many of them maintain a force of traveling salesmen. Indeed, the selling of bonds has become much like the selling of other wares, such as groceries and books. Within the house itself elaborate systems of various kinds are used for following investors and facilitating the work. It is the constant aim to have complete data of all salable bonds for convenient reference.

4. Negotiable Instruments

A negotiable instrument is an unconditional written promise to pay, or an order for the payment of, a certain sum of money to "order" or "bearer."

If the name of the person who is to receive the money is specified, without the addition of "or order" or "or bearer," no one but himself can receive the money, and the instrument is termed non-negotiable.

The distinguishing feature of a negotiable instrument is the fact that it may be transferred from one person to another, the receiver acquiring a perfect title to its possession. If the instrument is made payable to the "bearer," its negotiation is effected by its delivery, the same as if it were money, but if payable to "order," it must be indorsed before delivery.

Requirements.—In order that an instrument should possess the property of negotiability, the following requirements are essential:

1. **Form of Instrument.**—In the first place, it must be a written document, signed by its creator, who is termed the maker in the case of a note, or drawer on a bill of exchange. No particular method of writing, which also includes printing, is required, provided that legibility is secured, and the instrument is written with ink. A signature consisting of a person's initials, or of a name used in business, is binding, as is also the mark of a person unable to write. A signature by mark does not prove itself, but its authenticity may be established by oral testimony.

2. **Wording of Instrument.**—The instrument must contain an unconditional *order* or *promise*, as the case may be, to pay a certain sum in money. While no particular form of words is essential, and words of civility will not render the instrument invalid, yet the order must be more than a mere request for a favor, or authorization to the person receiving it to pay at his discretion. On the other hand, the mere acknowledgment of indebtedness, or the expression of a desire to pay, does not constitute a promise. A promise to pay, under certain conditions, or specifying that payment is to be made from some certain fund, or affected by any contingency whatever, loses its property of negotiability.

3. **Time of Payment.**—The time at which payment is to be made, must be agreed upon and stated in the in-

strument, as upon demand, or at some fixed or determinable future time. Payments may be effected in a number of instalments, but the dates and amounts of the instalments must be determined upon in the beginning, and stated exactly in the promise. Instruments payable at a time that may never arrive, as for instance upon a person reaching his majority, or upon marriage, are not negotiable, as the person might die before coming of age, or might never marry. However, instruments payable at or after death are negotiable, as in this case the event is sure to occur.

4. **How Payable.**—An instrument to be negotiable must be made payable to "order" or "bearer," as in the absence of these words its character is completely changed.

The name of the person in whose favor the instrument is drawn must be stated, or his identity must be established with a reasonable degree of certainty.

If an instrument is made payable to a fictitious person, eventually coming into the hands of an innocent holder who received it in good faith, he may enforce payment as against maker, drawer, or any one else concerned, who can be proved to have had knowledge of the facts. If it is made payable to a certain person and there are two of the same name, as for instance a father and son, the usual presumption is that the father is the one intended, although such a presumption may be proved incorrect by the introduction of evidence.

Forms of Negotiable Instruments.—According to their form and application, negotiable instruments may be divided into the following classes, each of which will be considered further:

1. Bills of Exchange.
2. Promissory Notes.
3. Bank Notes.
4. Checks.
5. Bonds.
6. Certificates of Deposit.
7. Bank Drafts.

1. Bills of Exchange, or "Drafts."—A Bill of Exchange —known among business men as a "draft"—is a written order sent by one person or firm to another, requesting the payment of a certain sum of money at a certain time to a third person or his order.

Bills of exchange are supposed to have originated in Italy with the revival of commerce following the Dark Ages. As their use spread they acquired negotiability under the Law Merchant, or Custom of Merchants, which is based on commercial practises and has its foundation in the civil law.

Notes are of much greater antiquity, and are supposed to have been used by the Romans. Bills and notes are governed by the same rules regarding their general elements, but are somewhat different in their inception, three persons, as has been seen, being involved in a bill, while only two are necessary in a note; but when the payee of a note makes a transfer of the note to an indorsee, the two instruments are practically identical.

In such an event the note becomes an order from the payee upon the maker to pay the indorsee—while the indorser, maker and indorsee of the note become the drawer, drawee and payee respectively of the bill.

Two Kinds of Bills.—Bills of Exchange are of two kinds (*a*) Inland Bills, or drafts, and (*b*) Foreign Bills. An Inland Bill is one in which the place of making and the place of payment are in the same country or State. A Foreign Bill is one made and payable in different countries, or States.

A Bill in the United States, if made in one State and payable in another, is a Foreign Bill.

(a) Inland Bills.—An Inland Bill can best be described by giving a specimen and drawing attention to its essential features.

The form here shown is practically the same as that used in all States, and next to the bank check is probably the form of commercial interchange most widely in use

INLAND BILL OF EXCHANGE

NO PROTEST
REMOVE BEFORE PRESENTING

NEW YORK, June 25, 1910.

$1,000.00

Thirty days after sight, Pay to the order of James White & Co.

One Thousand Dollars

Value received, and charge to account of

ROBERT WILSON.

To P. I. PERLMUTTER,
New York, N. Y.

Referring to the specimen bill the different features of its composition will be noted. In the upper right hand corner, the location usually selected, is the name of the place where the instrument is drawn and the date. Neither of these features is essential to the legality of the bill, although the omission of the date is a fruitful source of trouble. Then, as an instrument is governed by the laws of the place wherein it is created, the name of the place is an indication of the rules and regulations governing its creation.

The amount involved is usually expressed in figures on another corner, and in the body of the bill or note in words. The marginal figures are not essential, but serve to catch the eye and also as a check on the worded amount. When any discrepancy exists between the amount expressed in words and that in figures, the amount in the body of the instrument governs, and the figures in the margin may be changed to agree. Regarding the time of the instrument, there must be no uncertainty; and whether it is payable "at sight" so many days after the date or sight, or at some specified date, the same must be indicated clearly and with certainty.

"Sight" in a Bill of Exchange means when it is accepted, but with a note it means when the same is presented to the maker. If no particular date is specified, the effect is the same as if payable on demand. The

words "value received," although unnecessary in the absence of a statute requiring their use, are customarily employed and indicate the existence of some consideration for which the instrument was given.

(b) Foreign Bills.—Foreign Bills of Exchange are made in three parts, numbered consecutively 1, 2 and 3, and are usually sent to their destination by different routes in order to diminish the liability of loss. Whichever of the three parts first arrives at its destination receives recognition, and the payment of one of a set operates as a discharge of the rest.

The form customarily employed in drawing a Foreign Bill of Exchange is as follows:

FOREIGN BILL OF EXCHANGE

First New York, June 25, 1910.

EXCHANGE £100.0.0

Sixty days after sight of this our First of Exchange (second and third of the same date and tenor unpaid), pay to the order of Jno. Jones

One Hundred Pounds Sterling

Value received, and charge the same to the account of

J. E. Wilson.

To Edward Wilson,
London, Eng.

In the second part the wording is identical, with the exception that "second and third of same" etc. is charged to "first and third" and in the third, to "first and second."

Parties to a Bill of Exchange.—The parties to a Bill of Exchange are termed:

1. The "Drawer," or the person who gives the order.
2. The "Drawee," or the person upon whom the order is drawn.

3. The "Acceptor," or the Drawee when he has agreed to pay the order, thus becoming the principal debtor on the bill.

4. The "Payee," or the person in whose favor the order is drawn or to whom the money is to be paid.

5. The "Holder," or the person in legal possession of the instrument who, upon maturing, may demand the amount of same.

6. The "Indorser," or the person who, by affixing his name to the bill, directs that payment of same be made to another, or his order.

7. The "Indorsee," or the person who takes title to the bill through the indorsement.

In general it may be said that the form in which a bill or note is drawn is not of the first importance. In law, the effect and substance, rather than niceties of construction, are taken into consideration. If the intention and meaning are perfectly apparent, minor faults, such as the omission of an unimportant word or an error in spelling or grammatical construction, will not invalidate the instrument. While no contingent or doubtful statements are permitted, provision for modifying some of the features may be made through subsequent agreement, provided the agreement is founded upon a new consideration.

2. Promissory Notes.—A Promissory Note is an unconditional written promise to pay a certain sum of money, by one party to a second party, or his order, at a specified time. The usual form of such instrument is as follows:

PROMISSORY NOTE

New York, May 25, 1910.

$1,000.00.

Six months after date, I promise to Pay to the order of Potash and Perlmutter.....One Thousand.....no/100 Dollars, at the Canarsie National Bank, with interest at 6%.

Value Received.

L. Finkelstein.

$34.

Due Nov. 25, 1910.

The specimen note is an illustration of a "several" note as there is but one maker. There may also be a "joint" note, in which case there are two or more makers, the obligation to pay resting on all jointly; and in any action brought upon such an instrument all must be sued together. Then there is the "joint and several" note, in which case there are two or more makers, and upon which all may be sued together, or any one may be held individually for the full amount. Where the note on its face does not state whether it is a "joint" or a "joint and several" instrument, the intention is generally construed from the wording; a note stating "we promise to pay, etc.," and signed by two or more makers, is usually construed as a joint instrument; whereas, a note stating "I promise to pay, etc," and signed by two or more makers, has been held to be a joint and several obligation—joint because signed by all the makers, and several because each promised individually.

Collateral Note.—This is a regular promissory note to which a contract is added, detailing the securities pledged and the conditions attached to their delivery—this is the customary method employed by stock brokers in borrowing money.

Judgment Note.—A promissory note containing a clause in which the maker confesses judgment for the principal amount of the note with interest, and cost of suit.

Parties to a Note.—To a note there are but two original parties, the "maker" and the payee. Other parties may be introduced through transferal of the entrustment. For example, if a bill or note is made payable to A, or order: A may indorse and deliver it to B, who is termed the "indorsee." B in turn can indorse it over to C, and so on *ad infinitum*. If the original was made payable to the "bearer" it can be passed from one to another like so much money without the necessity of indorsements.

Execution and Delivery.—Starting with a bill or note at its inception, this initial stage consists in execution.

Execution embraces the two acts of signing and delivering. The signing amounts to more than merely subscribing a name. The mind must sanction the act of the hand, and while no one is supposed to sign a document without first acquainting himself with its contents, if it can be shown that the maker did not realize the character of the instrument, or that his signature was obtained through fraud and misrepresentation or duress, he may be released from its obligations. Delivering means passing from the hands or possession of the maker into that of the one who is to receive it, but does not necessarily imply being handed from the one to the other.

Acceptance.—Until the bill is accepted, the drawer is the party liable to the payee. When the instrument reaches the hand of the drawee, if it is a bill, twenty-four hours are allowed him to decide whether he wishes to accept it. If he decides to do so, he signifies the same in writing across the face of the bill with his signature. His acceptance may be either general or qualified. A general acceptance indicates complete assent to the request of the drawer. A qualified acceptance, that there are certain conditions imposed, but the holder may take a qualified acceptance or not, and if he insists on receiving a general acceptance in vain, he may treat the bill as non-accepted and dishonored.

Protesting.—When a foreign bill is dishonored, it must be protested, for if not protested, the drawer and indorsers are discharged. A protest is made under the hand and seal of a notary specifying the time and place at which the bill was presented and the manner of presentment, the reason for the protest, what demand was made and what answer given or if the drawee could not be found. In the absence of a notary the protest may be made by any reputable citizen in the presence of two or more witnesses, and should be made on the day and at the place where the instrument was dishonored. A protest may be made both for non-acceptance and non-payment, and a copy or the original must be attached to the bill.

When a note is dishonored notice of dishonor must be given to all interested parties, and unless otherwise provided, any indorser to whom notice is not given is discharged.

Indorsement.—An indorsement is the signature of the payee of a note, bill or check, usually written across the back of the instrument, and serves as an evidence of transfer, an assurance of payment, or both, as the case may be. Any number of indorsements may be added to an instrument, and if the back is not of sufficient space to receive them all, another piece of paper called an "allonge," may be secured to the instrument for the rest.

Indorsements may be of five kinds:

1. Blank.
2. Special.
3. Restrictive.
4. Qualified.
5. Conditional.

1. A *blank* indorsement merely consists of the signature of the indorser and specifies no indorsee.

2. A *special* indorsement has, in addition, the name of the person to whom, or to whose order the instrument is to be payable. The holder may convert a blank indorsement into a special indorsement by writing above the signature of the indorser, in blank, his own name or order.

3. An indorsement is *restrictive* when it

(*a*) Prohibits the further negotiation of the instrument;
(*b*) Constitutes the indorsee the agent of the indorser;
(*c*) Vests the title in the indorsee in trust for, or to the use of, some other person.

Restrictive indorsements tend to limit the negotiability of the paper.

4. A *qualified* indorsement constitutes the indorser a mere assignor of title to the instrument. It may be done by adding to the indorser's signature the words "without recourse" or any words of similar import. Such an indorser is not liable on the instrument, in case of non-acceptance or non-payment. A frequent use of the qualified indorsement is in cases where a country bank remits

to its reserve center correspondent, and in so doing directs its mail and fills out the check to the wrong bank. To avoid the delay incident to returning the check, the out-of-town institution requests the recipient bank to indorse the item and deliver to its correspondent. In such cases the indorsement is always followed by the words "without recourse," which thus relieves the last signer of any liability, while rendering the paper freely negotiable.

5. An indorsement is *conditional* when the passing of title to the instrument is contingent upon the happening of some specified act or event, as, for example, the death of an individual. The indorsee accepts it subject to this condition. But the conditional indorsement does not in any way affect the duty of the maker, drawer, or acceptor.

The conditional indorsement is a device by which a payee or an indorsee may part with the possession of an instrument but not with the legal title to it. "Pay to X or order unless before payment I give you notice to the contrary," is an example.

In conditional indorsements commercial convenience has overridden the strict theory of negotiability that does not permit a condition to exist which charges every subsequent indorsee with the duty of seeing whether the condition has been fulfilled before he can legally own the instrument.

Accommodation Signers, or Indorsers.—It sometimes happens that a person having no interest in the funds obtained signs either as maker, drawer, acceptor, or indorser, to enable another individual or firm of slender credit to obtain funds. Such "accommodation" signers or indorsers, although they ordinarily receive no consideration for their acts, are nevertheless liable to any subsequent holder of the paper who paid value therefor before maturity. The liability remains the same even though said subsequent holder knew when he took the instrument that the party he seeks to hold had signed only for accommodation; the accommodation signer or indorser, however, is not liable to any person who took the paper after maturity, except in cases where he has accepted con-

sideration, in which event he becomes a regular signer or indorser and is liable as such.

A common use of accommodation paper is where "X," who is unknown at the bank, applies to "Y" for a loan; "Y" is unable to let him have the cash, but gives him a note which "X" indorses and discounts at the bank. If "Y" refuses payment at maturity because it is really "X's" obligation, the bank can, of course, proceed against "Y," but it can also proceed against "X" without the formality of demand and notice. The reason is: "X" being the real debtor does not expect "Y" to pay the instrument, but considers himself the primary obligor.

3. Bank-notes.—A Bank-note is a common form of promissory note payable to bearer on demand. Unlike the ordinary promissory note they are designed to circulate as money among people for an indefinite time. Bank-notes representing value, but being of small intrinsic value, are liable to be counterfeited, and are printed on special paper embellished with intricate designs difficult of imitation. Before becoming effective they must be signed by the president and cashier.

In general, bank-notes are treated as money, and while not legal tender are regarded as lawful tender for the payment of debts, provided the creditor does not refuse to take them. Forged notes are without value and a debt can not be discharged with them, but if a bank takes in a forged note of its own, no further payment is necessary. If a national bank should become insolvent, its notes would be protected by United States bonds, which the Government requires to be deposited with it before the issue of such notes is allowed.

When a bank-note is lost the loser suffers; but if only a portion of it is lost or destroyed he may recover the full amount from the bank, which on its part, in some instances, will demand a bond of indemnity.

4. Checks.—A check is a draft or order upon a bank for the payment of a specified sum of money to a third person, his order, or to bearer, instantly on demand,

out of the amount which the person giving the order purports to have deposited in the bank to his credit. It is also defined as a bill of exchange drawn on a bank, payable on demand. Checks payable to a person or his order are passed by indorsement and delivery; when payable to bearer, by delivery alone. Unlike a bill or draft, a check is never presented for acceptance, payment being due on demand without the three days of grace sometimes allowed in the case of a note. (See Table, p. 164). No special form of writing is essential, provided its object is attained. An ordinary form of check is here given.

BANK CHECK

$1,000.00. No. 84

New York, N. Y., June 25, 1910.

First National Bank

Pay to the order of.....John Jones.....
One thousand and no/100.....Dollars.

James Smith.

It is essential that the check be dated and that the drawer and payee be clearly indicated, although the payee may be an impersonal one. Like other forms shown, the amount mentioned in writing is duplicated in figures on the margin as an additional safeguard on the amount and also for the convenience in handling. It is customary to protect these figures by various embossing or other devices, to prevent the raising or altering of the sum by dishonest persons.

A memorandum check is one given by a debtor as evidence of his debt, but which he does not expect to be presented at the bank, the intention being to redeem it later himself. In form and appearance a memorandum check is the same as an ordinary check, except that on its face is written the word "Memorandum" or "Memo." It can be sued upon as a promissory note without presentment to the bank, whereas the holder of ordinary

checks must first demand payment at the bank and be refused before he can sue the drawer.

A check when given must be presented at the bank for payment within a "reasonable time," which depends upon circumstances. Certifying a check by a bank is equivalent to the acceptance of a bill by a drawee. The bank gives assurance that the drawer is genuine, that he has funds in the bank sufficient to pay the check, and that it will set aside an amount sufficient to pay the check when presented.

A check is "certified" when the bank upon which it is drawn writes a formal acceptance across its face.

Checks are payable at a bank in order of presentation, not priority of date. If no blame attaches to the drawer, the bank suffers if it pays a check that has been forged. If it is shown, however, that the forgery was made possible by negligence on his part, the drawer will have to suffer the loss.

Changing a date or amount on a check invalidates it, and if a bank pays a check in which the amount has been increased, the drawer, unless liable for the reasons previously mentioned, can only be held for the original amount.

When a check is lost, it is the holder's duty to notify all concerned, after which the drawer will stop payment on same and issue a duplicate to the loser.

When a negotiable instrument is received for a debt the presumption arises that it is received in conditional and not in absolute payment; therefore the acceptance of a check does not discharge a debt until the check itself is actually paid.

Other Forms of Checks.—In addition to the specimen shown, there are other instruments for the transfer of funds, viz:

The Crossed Check.—Not commonly found in America, but widely used in England. It is an ordinary customer's check that has across its face bars which signify that it must be presented by the payee at his own bank, and will not be paid if presented by the payee

himself at the bank on which it is drawn. A crossed check, since it is useless in the hands of the wrong person, is a more secure form of a negotiable instrument than the ordinary customer's check.

The Check-bank Check.—This kind of bank sells to its customers a book of its checks, the amount for which each may be drawn being limited on the face of the check itself. Check-books are made up of assorted blanks to suit the customer's convenience.

The Cashier's Check.—To obtain the cashier's check, the customer of the bank will exchange his own check for that of the cashier, made payable to such a person as the customer directs.

The Money Order.—Issued by the post-office, the Bankers' Money Order Association, and the Express Companies as the instrument of transfer of funds created for a special purpose. For instance, if A in New York wishes to send money to B in Kansas City, he may deposit the amount with one of the aforesaid, which will for a small fee issue an order payable to the person specified by the depositor, and the latter will send this order instead of money or other forms of funds.

The Letter of Credit.—With the increase of foreign travel this means of transfer of credit funds has become very common. A person wishing to travel abroad and not desiring to carry about money enough to defray the entire expense, arranges with his bankers for a special credit to be drawn against any time. The banker gives him the letter of credit, which in its first page guarantees the account, and authorizes the various correspondents of the banker issuing it to pay the holder any amount which he may draw, not to exceed the fund provided. A second page is provided upon which the bank official paying the draft himself enters the amount; this page will show at any time the total of drafts upon the credit on the first page, thus preventing any overdraft. The third page details the names of the banker's correspondents.

Travelers' Checks.—Another instrument of transfer of credit funds for use in travel has been devised by the

express companies and is now issued also by private banking houses. Travelers' checks are issued in denominations of $10, $20, $50, $100, $200, to suit the convenience of the purchaser. Precaution against loss and for identification is provided for by having the purchaser sign his name on the face at the time of issue. When the holder presents the check for payment he is again required to sign his name, this time on the back; the signatures are then compared by the cashier.

5. Bonds.—A negotiable bond is ordinarily a promise on the part of a corporation to pay a certain sum of money at a definite time, with interest periodically; it is in effect a promissory note, issued under seal, secured usually by an indenture in which the rights of the bondholders are fully set forth. Originally, under the common law, sealed instruments were not negotiable, but through custom, recognized by the courts, their character in this respect has been changed.

Bonds are issued in convenient denominations, and may be payable to bearer, or to a registered owner whose name and address are recorded in the office of the issuing corporation. There may be coupons for interest attached, or not; and it is not unusual to see a coupon bond registered as to principal, which of course restricts its negotiability. Bonds may be issued by governmental corporations, public corporations, or private corporations. The fundamental difference between a bondholder and a shareholder is that the latter is a part owner of the corporation, whereas the former is a creditor of the corporation.

The large financial houses and exchanges furnish daily quotations and lists showing the results of each day's trading in both stocks and bonds, and the latest selling prices. The daily newspapers of New York and Chicago also publish these quotations, so that the investor may be informed as to the exact condition of every class of listed security.

A common form of industrial bond with attached coupon is given herewith.

(*Specimen Bond*)

UNITED STATES OF AMERICA

STATE OF NEW YORK

AMERICAN TAXIMETER COMPANY

No..... $500.00

TOTAL ISSUE $375,000

FIRST MORTGAGE SIX PER CENT GOLD BOND

SERIES OF YEAR 1911

The American Taximeter Company, a corporation organized and existing under the laws of the State of New York, for value received, promises to pay to the bearer, or, if registered, to the registered holder hereof, at the office of Knickerbocker Trust Company in the City of New York, Five Hundred Dollars ($500) in gold coin of the United States of America of the present standard of weight and fineness, on the first day of April in the year of which this bond forms one of the series, as above entitled, and to pay interest thereon semi-annually from the first day of April, nineteen hundred and ten, at the rate of six per centum (6%) per annum, payable in like gold coin on the first days of October and April in each year, according to the terms hereof, upon the presentation and surrender of the interest warrants or coupons, hereto annexed, as the same become due. The payment of the principal of this bond, and all interest, shall be made without deduction of any United States, State or Municipal tax or taxes within the United States, which the said American Taximeter Company, its successors or assigns, may be required to pay or deduct or retain therefrom, under any present or future law, the said American Taximeter Company agreeing to pay all such taxes.

This bond is one of a total issue of two thousand three hundred and fifty (2,350) bonds of the total par value of Three Hundred and Seventy-five Thousand Dollars ($375,000), all of even date herewith, of which bonds three hundred and fifty (350) numbered consecutively from 1 to 350, both inclusive, are of the par value of Five Hundred Dollars ($500) each; and two thousand (2,000) bonds numbered 351 to 2,350, both inclusive, are of the par value of One Hundred Dollars ($100) each; said bonds being divided into fifteen (15) series, each of the total par value of Twenty-five Thousand Dollars ($25,000), said series being entitled "Series of Year 1911" to "Series of Year 1925," both in-

clusive, the payment of the principal and interest whereof when due, is equally and ratably secured by a deed of trust of even date herewith, duly executed by American Taximeter Company to Knickerbocker Trust Company, as trustee of the property of said company specifically mentioned and described or intended to be mentioned and described in said deed of trust, to all the provisions of which, this bond and each interest coupon hereto attached, are subject.

The above-mentioned bonds become due and payable, one series on the first day of April in each calendar year, until all bonds hereunder with accrued interest are redeemed and discharged; bonds entitled "Series of Year 1911" becoming so due and payable on the first day of April, 1911; bonds of "Series of Year 1912" becoming due and payable on the first day of April, 1912, and so on thereafter according to the year of each series.

This bond is further subject to redemption on any day on which interest is payable hereon, at the option of the mortgagor, at five per cent premium upon its par value and all due and unpaid interest at the date of redemption, at the time and in the manner provided in said deed of trust.

In case of default in the payment of any instalment of interest on any bond for sixty (60) days after the same is due, or in the payment of the principal of any bond of a prior series when due, the principal of this bond may, at the option of the owner, be made due and payable in the manner provided in said deed of trust.

The liability for the principal due and interest thereon, the holder hereby expressly agrees is the liability of the American Taximeter Company, and no stockholder of said company shall be personally liable therefor. This bond shall pass by delivery, unless registered in the owner's name on the books of the Trustee at its office in the City of New York, such registry being noted on the bonds by said Trustee or its agent, after which no transfer shall be valid unless made on the Trustee's books by the registered owner or his legal representatives, and similarly noted on the bond, but the same may be discharged from registry by being in like manner transferred to bearer, after which it shall be transferable to bearer by delivery, but it may be again registered as before. Notwithstanding such registration as to principal, the coupons hereon shall remain and be negotiable by delivery and payable to bearer on presentation.

This bond shall not become valid or obligatory for any purpose, until authenticated by the certificate endorsed hereon duly signed by the Trustee, by its vice-president or other officer by the Trustee thereto authorized.

In witness whereof the American Taximeter Company has caused these presents to be signed by its president or vice-president, and its corporate seal to be hereunto affixed and attested by its secretary, and coupons for said interest with the engraved sig-

nature of its treasurer, to be attached hereto, this first day of April, one thousand nine hundred and ten.

AMERICAN TAXIMETER COMPANY,

By .....
President.

Attest:
.....
Secretary.

[FORM OF COUPON]

The American Taximeter Company will pay to the bearer at the office of the Knickerbocker Trust Company in the City of New York, on the day of 19 , Dollars ($) in United States gold coin, being six months' interest due on that day on the par value of its First Mortgage Gold Bond, number.....

.....
Treasurer.

[TRUSTEE'S CERTIFICATE TO BE INDORSED]

This bond is one of a series of bonds described in the mortgage or deed of trust within referred to.

KNICKERBOCKER TRUST COMPANY,
Trustee.

By .....
Vice-President.

Classification.—All bonds may be classified in two ways:

1. According to the issuing corporation, and
2. According to the form of bond issued.

1. The Issuing Corporation.—Under the first heading an ordinary bond would fall into one of the following divisions:

CLASS A

Government Bonds
Colonial Bonds
State Bonds
Territorial Bonds
Municipal Bonds

CLASS B

Gas Bonds
Electric Light and Power Bonds
Telephone Bonds
Street Railway Bonds
Interurban Railway Bonds
Steam Railway Bonds

CLASS C

Industrial Corporation Bonds

Class A:

Government bonds differ from others in several particulars. Generally speaking there is no specific property pledged as security, and in case of default there is no way to enforce the claim, because a citizen can not sue a sovereign State without its consent. The United States Government does give its consent for suits in certain kinds of cases, and these are brought before a Court of Claims, specially organized for that purpose. The Government, however, pledges its credit and faith for the prompt fulfilment of its obligations, and there is no question either of its willingness or ability to pay.

Colonial bonds are comparatively new in the United States; the Philippine Government is the only one now issuing these bonds; they are registered and transferred at the Treasury of the United States and interest is also payable there. Although there is a sort of moral obligation on the part of the United States Government

to see that there is no default, it is under no legal obligation or responsibility for these Colonial bonds.

State bonds are usually tax exempt and are available for all sorts of restricted investments. The questions of legality of issue are so complex, however, that their purchase should be preceded by a thorough investigation.

Territorial.—Few of the former territories have any bonds outstanding. Arizona has some, and they stand somewhat in the same class as State bonds, although not quite as highly regarded.

Municipal.—This class would include bonds of villages, towns, cities, counties, school districts, etc. They are like Government bonds in so far as they are a promise to pay, based on the credit of some political subdivision or corporation. Ordinarily they are issued pursuant to law to obtain funds for some public improvement.

Class B:

Public Utility Corporations obtain a charter from the State defining their rights, duties and privileges, and a franchise is granted them to carry on certain operations within the community that they are to serve; from the nature of the service of such a corporation, it is usually necessary to obtain the consent of the owners to pass over their property, and this consent may be obtained by condemnation proceedings if the interests of the public require such action. A public service corporation operating under a limited, or even a perpetual, franchise should establish a sinking fund when issuing bonds, in order substantially to reduce its indebtedness by the time the franchise expires. The desirability of these bonds as an investment calls for a consideration of the locality, nature of the people, nature of industries, and value of the property itself.

Class C:

Industrial Corporation Bonds are issued by corporations engaged in exploiting some particular line of manufacturing, or mercantile industry. Due no doubt to the

instability of earnings, they do not as a class enjoy the same favor with investors as Municipal or Public Service bonds, although they are usually issued for a comparatively short period, about thirty years, bear a higher rate of interest than the Municipal or Public Service bond, and provide a sinking fund to redeem the issue.

2. Forms of Bonds.—The second division may be considered with respect to, and it also may be subdivided into, three classes, namely, as to the:

(*a*) Security of payment of principal and interest;
(*b*) Purpose of the issue;
(*c*) Terms or conditions of payment or redemption.

Class A: Security of Payment.—Under the head of security may be classed:

1. *Receivers' Certificates and Short-term Notes.*—The former are issued to enable the receiver of an insolvent railroad to obtain funds to operate the system; they constitute a prior lien on the assets realized; the latter are part of the current liabilities of the corporation and must be paid as they mature.

2. *Car Trust and Equipment Bonds.*—Equipment bonds may be regular mortgage bonds like any other, but in the case of car or locomotive trusts, the equipment is actually owned by a syndicate, trust company, or banking firm and not by the railroad. The railroad pays rental for the use of the equipment, thus purchasing same on the instalment plan, and not until the final payment has been made does the title to the equipment pass to the railroad company. The advantage of this is that the company is able to obtain cars, in order to accommodate its traffic, without paying all the cash at once. All equipment so purchased is suitably marked, hence those who advance the cash are protected, as in case of the insolvency of the debtor they may seize its property.

3. *Prior Lien and First Mortgage.*—Prior lien is not necessarily the first lien; it may be merely prior to something else. Receivers' certificates are often refunded into prior lien bonds after a reorganization. First Mort-

gage bonds are a first lien on the earnings of the road, and in case of trouble a first lien on the physical property of the road. First Mortgage bonds usually cover only a small part of a railroad; there are practically no large issues of absolute first mortgage bonds, because most of our railroads represent the growth and combination of several systems, so that we may have a first mortgage on various parts of the road and, perhaps, second or third mortgages on other parts of the system; the value of the bonds, therefore, depends upon the importance and earning power of that particular part of the road.

Second, third and even fourth mortgage bonds may be issued, but they do not meet with favor from investors. Accordingly, companies disguise various securities as first mortgage bonds and call them "First and Refunding," "First and Unifying," etc.

4. *General, Blanket, Consolidated, and Unified.*—The general or blanket bonds are usually a mortgage on a large part of a railroad, but they are subsequent to many prior liens which they are expected ultimately to replace. The consolidated and unified bonds are very similar to the general or blanket mortgage. The authorized issue is usually a large one and they run for a long period; as underlying bonds mature they are paid off by consolidated bonds reserved for that purpose, and result in a consolidation or unification of smaller debts. These bonds may, therefore, also be classed as to the purpose of issue, but are mentioned in this connection to show the similarity of security.

5. *Indorsed and Guaranteed.*—A bond may be indorsed by its owner, but the term usually refers to the bond of one company which is indorsed by another company. When occasion arises to enforce the payment of an indorsed bond, the nature of the contract is established by common practise and legal proceedings, whereas, in the case of a guaranteed bond, the guarantee is strictly construed and enforced only in the specific terms of the guarantee.

6. *Collateral Trust Bonds.*—Collateral trust bonds are modified mortgage bonds. They are so called because

based on the securities (bonds and stocks) of other companies owned by the corporation. A large system which has been formed by the gradual taking over of smaller corporations, and which can not or does not desire to place an additional mortgage on its physical property, may, when occasion for obtaining funds arises, pledge the stocks and bonds of these other corporations as security for the borrowed funds. It will thus secure the financial assistance required without jeopardizing its control of the subsidiary corporations. The Union Pacific was one of the earliest to utilize this device. In 1873, this company, which had been aided by the Government, was prohibited by an Act of Congress from placing any new mortgages upon its property, other than those which contemplated refunding an old mortgage. Inasmuch as the Union Pacific could not obtain funds for its branch lines by the customary means, it advanced its own funds to the subsidiary lines and took from them their first mortgage bonds; the Union Pacific then pledged the bonds and stocks of the subsidiary companies as security for its own bond issue which were called Collateral Trust Mortgage Bonds, marketed these, and thus reimbursed itself.

Again, a corporation of good credit may issue this type of bond, the securities deposited furnishing additional security; for example, the New York Central owns a large amount of the stock of the Lake Shore; it has deposited that stock with a trustee and has issued collateral trust bonds against it. The collateral trust bond has the additional security feature that it is primarily the obligation of the issuing corporation, and no matter how worthless the collateral pledged may become, the issuing corporation is still bound.

7. *Land Grant, Terminal and Divisional.*—Many of the western railroads have received grants of land from the Government, and the bonds issued against these grants gave rise to the name. Terminal bonds are secured by the depot facilities, and although of no earning power in themselves if owned by the railroad company, yet when situated in large cities where heavy traffic originates or

terminates, great value is attached to them. Divisional or branch bonds would, of course, be a lien against that particular part of the system for which they were issued.

8. *Sinking Fund.*—In this case a fixed sum of money is set aside each year to provide for the final redemption of the bond issue. The usual method is to pay equal instalments annually or at some stated period to the trustee for the bondholders, so as to cancel principal and interest of the entire indebtedness in a given time. Railroads rarely issue them because it is expected that railroad bonds will be continued, but industrial companies, especially mining and lumber companies, whose assets are diminishing, employ this device. Dr. E. S. Meade in "Trust Finance" thus explains the effect of the operation of a sinking fund on dividends:

"The sinking fund is of no benefit to the stockholder other than to ultimately decrease the liabilities of the company. During a long period, however, the corporation is under the necessity of paying interest, and at the same time of contributing to the sinking fund. The result of this double contribution is, for perhaps twenty-five years, to compel the stockholder to pay double for the money borrowed. The amount available for dividends is, therefore, reduced and the stockholder suffers.

"It may be argued that the stockholder will eventually receive full compensation for these smaller dividends in the reduction of fixed charges which the sinking fund will eventually bring about; but aside from the fact that it is a hardship for him to wait so long for his reward, there is the further objection that even after the reduction of liabilities by the cancellation of the principal, the owners of the company will have made, averaging the periods before and after the retirement of the bonds, smaller profits than if no sinking fund had been gathered. The reason for this permanent reduction of profits by the collection of a sinking fund is as follows: A sinking fund must be invested in securities. It can not be put into betterments. In the form in which it is accumulated, a low rate of interest from the investment of these annual sums is all that can be expected. The compounding

of these annual investments, it is supposed, equals the principal of the bonds at the time of maturity, and the corporation is thereafter freed from a portion of its fixed charges. This gain, however, in reality is a loss to the stockholders. If the money which has gone into the sinking fund had been spent upon improving the property, the stockholders would eventually have received a larger dividend."

9. *Debenture.*—This is an obligation without security, and is merely a promissory note. English railroads issue debentures on the theory that the value of a bond depends upon the earning power behind it, rather than on the price for which the property could be disposed of at forced sale. Debentures are used in this country by growing corporations to secure elasticity in their power to sell other mortgage bonds in the future, should additional funds be required. To float an issue of debentures successfully, it is essential that the company maintain a high credit record and that its earnings have a stability which will inspire the confidence of investors.

10. *Income.*—This is a minor issue, and the principal is usually secured by a mortgage. Interest, however, is dependent on the income of the corporation, and is payable only if earned and declared; it is this feature which renders income bonds unpopular with investors, as the bondholders and the management seldom agree as to what constitutes earnings. In railroad finance they are usually issued in reorganizations to compensate the old bondholders for sacrifices they were obliged to make. At maturity the principal must be paid, or the road may be put through foreclosure proceedings.

11. *Participation and Profit-sharing.*—In the case of the Participation Bond, the holder receives the excess dividends from stock which secures the bond, should the dividends received be more than sufficient to pay the regular interest rate on the bond. The Profit-sharing Bond is secured by stock, the proceeds from the sale of which, if larger than the price at which the stock was deposited to secure the bonds, go to the bondholder.

12. *Joint.*—The payment of principal and interest is

jointly provided for by two or more companies; a good example is the C., B. & Q. Joint 4s, which is the joint obligation of the Northern Pacific and the Great Northern railway companies.

Class B: Purpose of Issue.

1. *Refunding.*—The essential of a refunding bond is the continuation of a debt beyond its maturity. There are many large issues of bonds known as "First and Refunding Mortgage"; these are first lien on a small part of the system, provide for the extension of other mortgage issues about to mature, and supply a means of obtaining funds for other purposes.

2. *Construction, Improvement, etc.*—These bonds are often temporary in character, representing advances to subsidiary companies, and in the case of construction bonds contemplate a reimbursement later.

3. *Purchase Money.*—These are issued in full or part payment for property purchased, and for improving equipment. They are sometimes delivered prior to the closing of the contract to enable the seller of property to realize upon them without delay.

4. *Founders.*—Issued to reimburse the original owners who retire from a business. The first mortgage five per cent bonds which Andrew Carnegie received at the formation of the United States Steel Corporation might well be called "founders' bonds," although the term is not much used in this country.

5. *Adjustment.*—These are used to settle legal disputes or to adjust the interest of several people or corporations.

6. *Interim.*—When a company is in temporary need of funds, Interim or Temporary Bonds are issued to tide them over.

7. *Interest.*—Bonds used to defer the payment of interest on bonds.

Class C: Terms or Conditions.

1. *Gold, Silver, Currency, and Legal Tender.*—A bond always states upon its face the method and means of pay-

ment at maturity; nearly all recent issues are payable in gold.

2. *Coupon and Registered.*—In the case of the former the payment of interest is provided for by detachable warrants, similar to post-dated checks, and payable to bearer. Registered bonds are issued in the same form as a stock certificate and the ownership transferred by a change in the corporation books; interest is paid by check in the same manner as a dividend on shares owned.

3. *Redeemable or Optional.*—Such bonds as may be called in at any time or at a specified time at a price fixed upon when the bond is issued.

4. *Irredeemable and Perpetual.*—In the former class would be bonds that have a very long life, such as the West Shore 4s, which do not mature until the year 2361. The latter class includes bonds like the British Consols, which have no fixed time for payment.

5. *Convertible.*—A bond which is exchangeable for stock of the issuing company after a certain time and at a fixed price. This class of bond appeals to the speculator as well as to the investor.

6. *Serial.*—Sometimes a large issue of bonds is so designed that the maturity of the issue is spread over a number of years, a certain number becoming due each year after a specified time has elapsed. These bonds are issued in series to aid in identification at maturity.

Some Provisions of the Savings-bank Law Relating to Investments.—Theoretically, savings-banks are philanthropic institutions; they have no capital stock, they are managed by a Board of Trustees who serve without compensation, and the earnings are the property of the depositors. To protect the savings of the thrifty, the States have enacted laws governing the manner in which savings-bank deposits may be invested. It is the intent of the law to confine these investments to securities that are perfectly safe. Investments in foreign corporations are prohibited. The purchase of mortgage bonds of any railroad incorporated under the laws of the United States is authorized:

1. Provided, that the railroad owns not less than 500 miles of road within the United States, and provided also, that continuous dividends have been paid for the last five years at the rate of 4%, and the principal and interest of mortgages and other indebtedness have been paid.

2. Provided, that the earnings for the five preceding years shall have been not less than five times the interest on the entire outstanding indebtedness.

3. Provided, that the mortgage security must be a first mortgage on not less than 75% of the road's mileage, or a refunding mortgage issued to redeem all prior liens covering at least 75% of the road, and such bonds shall not be legal investments if the mortgage of the authorized issue together with the outstanding prior debts shall equal three times the capital stock. (This is to prevent investments in the mortgage bonds of a railroad or branch that is not profitable.)

4. Provided, that the railroad owns less than 500 miles of road, but has gross annual earnings of over $10,000,000, and otherwise meets the requirements.

5. If bonds are reserved to refund bonds of a subsidiary corporation, they will be legal investments for a savings-bank, if guaranteed by the indorsement of the parent company.

The law further provides that not more than 25% of the assets of such a bank shall be invested in railroad bonds, and not more than 5% of the assets in any road in a foreign State. The New York law also authorizes investments, without limit, in practically all New York State municipalities, and in certain other municipalities which have a population of over 45,000, have been incorporated for a stated number of years, and have a good credit record. Savings-banks are permitted also to loan on real estate mortgages, but not more than 65% of the deposits may be so loaned, and only certain classes of mortgages shall be accepted.

The above are the general provisions of the law regulating the investment of savings-bank funds. Insurance companies are likewise limited in their purchases of

securities, but a little more latitude is allowed them in their loans.

6. Certificates of Deposit.—A certificate of deposit is issued by a bank in acknowledgment of the receipt of a sum of money which the bank also promises to pay to the depositor or his order, to bearer, or some other person of his order upon surrender of the certificate. They are seldom issued except when a person makes a deposit for a specific purpose, as a fund in trust, or it is intended to draw interest and not to be subject to check. The form is immaterial, provided its essentials are present. Certificates of deposits are regarded in substance as promissory notes in every State in the Union except Pennsylvania.

7. Bank Drafts.—A Bank Draft is a check drawn by one bank upon another bank payable on demand. One bank frequently makes a deposit with another at a distance in order to furnish these checks. Thus a large New York bank may keep an account with a London bank, so that it may issue its checks or bills on London and supply London exchange; also country banks maintain accounts with New York financial institutions to meet the requirements of their customers for New York exchange.

Legal Tender.—To discharge a debt properly, unless a creditor is willing to accept something else, the payment of money must be made in what is known as legal tender, which is money which Congress has declared must be accepted if offered in discharge of indebtedness. Gold coins, silver dollars and United States Treasury notes are legal tender for any amount. Silver coins of denominations less than a dollar are legal tender to an amount not exceeding ten dollars. Nickels and coppers are legal tender up to twenty-five cents. National bank notes and gold and silver certificates are not legal tender.

Days of Grace.—States and territories in which days of grace are still allowed on certain negotiable instru-

ments. If allowed on paper payable at sight, the fact is designated in the first column; if on demand paper, in the second; and if on paper payable a certain time after date, in the third column.

State	Sight	Demand	Time
Alabama	Yes	Yes	Yes
Alaska Territory	No	No	Yes
Arizona	Yes	Yes	Yes
Arkansas	Yes	Yes	Yes
California	No	No	No
Colorado	No	No	No
Connecticut	No	No	No
Delaware	No	No	No
District of Columbia	No	No	No
Florida	No	No	No
Georgia	No	No	Yes
Idaho	No	No	No
Illinois	No	No	No
Indiana	No	No	No
Indian Territory	Yes	No	Yes
Iowa	No	No	No
Kansas	No	No	No
Kentucky	No	No	Yes
Louisiana	No	No	Yes
Maine	Yes	No	No
Maryland	No	No	No
Massachusetts	Yes	No	No
Michigan	Yes	No	Yes
Minnesota	Yes	No	No
Mississippi	Yes	Yes	Yes
Missouri	No	No	Yes
Montana	No	No	No
Nebraska	Yes	No	Yes
Nevada	No	Yes	Yes
New Hampshire	Yes	No	No
New Jersey	No	No	No
New Mexico	Yes	Yes	Yes
New York	No	No	No
North Carolina	Yes	No	Yes
North Dakota	No	No	No
Ohio	No	No	No
Oklahoma	Yes	Yes	Yes
Oregon	No	No	No
Pennsylvania	No	No	No
Rhode Island	Yes	No	No
South Carolina	Yes	No	Yes
South Dakota	Yes	Yes	Yes
Tennessee	No	No	No
Texas	Yes	No	Yes
Utah	No	No	No
Vermont	No	No	No
Virginia	No	No	No
Washington	No	No	No
West Virginia	No	No	No
Wisconsin	No	No	No
Wyoming	Yes	Yes	Yes

5. Importance of Working Capital

From a commercial point of view, capital is wealth employed to yield a profit. Capital may be divided into two wide classes—*Fixed,* and *Movable* or *Working.*

These two classes are not arbitrary or theoretical, but are practical working designations among all financial houses, and serve at once to indicate the solvency or insolvency of a concern.

Fixed Capital includes those fixed investments essential to a business, such as real estate, buildings, machinery, and the securities of subsidiary corporations.

The nature of the operations of a corporation largely decides the amount of its fixed capital. For instance, a railroad company has tracks and rolling stock, an industrial company machinery; but a publishing house may start business with a desk and an office chair or two, which are its fixed assets. As fixed capital depreciates rapidly, it is not well to invest too heavily in it, and also its value is bound up with the life of the business only while in operation. In some lines of trade, where buildings and machinery are more easily rented than bought, it is wise to lease them until the business is on its feet.

Working Capital, on the other hand, may consist of:

1. Cash, on hand or in banks.
2. Accounts and bills receivable.
3. Raw Materials, unfinished and finished products in stock.
4. Securities of other companies held as temporary investments.

Working capital does not consist of the current assets of a firm, but is really the difference between current assets and current obligations, or that part of the current assets which does not come from borrowed funds provided by short time paper or bank loans. To show this point, look at the following yearly statement of accounts of an actual company for a year, as compared with that of the previous year, the volume of business being nearly equal.

CURRENT ASSETS

	1909	1910
Inventories	$18,404,726	$13,533,169
Cash	2,061,401	2,723,380
Bills receivable	3,681,126	994,250
Accounts receivable	8,687,631	8,494,234
Totals	$32,834,884	$25,745,033

CURRENT LIABILITIES

Loans and notes payable	$ 6,821,077	$ 2,440,077
Accounts payable	8,006,825	7,526,745
Reserve for discount	872,989	874,735
Totals	$15,700,891	$10,841,557
Total Current Assets	32,834,884	25,745,033
Total Current Liabilities	15,700,891	10,841,557
Working Capital	$17,133,993	$14,903,476

What Proportion of Working Capital Should be Carried?—There are several factors which regulate the amount of actual cash required by a corporation:

1. The size of the pay-roll and its nature, and similar current cash demands.
2. Accounts payable as against accounts to be received.
3. Discounts received on payments made in cash.
4. Degree of facility in borrowing temporary funds.

All these things must be taken into consideration by the managers of a corporation, and they will accordingly arrange sufficient working capital to meet current requirements. It is possible, however, to have too much capital lying useless. As, for instance, too large a balance may be kept in bank, where if it lies long enough to create interest, the interest will not be more than 2 or 2½%. Of course, there is this advantage to counteract the drawback, that a balance at the bank kept up to a sufficiently high standard is sure to please the bank. This may be a wise policy, as it must be remembered that the

bank on its part will prove useful in lending money when it is required. Or again, too much money may be locked up in materials, raw or finished in store; but this may be avoided by regular inventories being taken and reported to the accounting department. By this means due care will be taken in purchasing not to acquire a larger amount of raw material than is actually needed for the estimated output of finished goods. There are occasions, of course, such as a sharp decline in prices of raw materials, when it is judicious to buy a larger quantity than that actually required.

Again, no management can estimate correctly the amount of capital furnished by accounts receivable. Here again the amount is dependent on several factors, such as the volume of sales, the custom of the trade as to payment, and the ability of the credit department to collect outstanding accounts and to grant credits.

No set rules can be formulated as to the proportion of working capital carried by corporations, but a study of the reports of the leading industrial companies shows what is the usual policy. The following table gives the working capital of several of the prominent industrial companies, together with gross business and capitalization for their respective fiscal years:

Company *Year Ended*	*Gross* *Business*	*Working* *Capital*	*Capital* *Stock*
United States Steel Corp. Dec. 31, 1909.	$646,382,251	$247,059,928	$868,583,600
International Harvester Co. Dec. 31, 1909.	86,614,550	92,273,372	120,000,000
General Electric Co. Dec. 31, 1909—11 mon.	51,656,631	61,551,428	65,179,600
West. Electric Mfg. Co. March 31, 1909.	20,606,592	31,811,873	40,635,425
American Locomotive Co. June 30, 1909.	19,008,634	14,513,301	50,000,000
Lackawanna Steel Co. Dec. 31, 1909.	25,296,661	13,379,588	34,721,400
Republic Iron & Steel Co. June 30, 1909.	19,595,944	11,212,504	52,191,000
Totals.....	$869,161,263	$471,901,994	$1,231,311,025

The foregoing figures show that the companies in question are well fortified with working capital, the aggregate of which stands at $471,901,994 as compared with total stock capitalization of $1,231,311,025, or less than three times that amount.

Five Determining Factors.—The amount of working capital, as compared with that of fixed, is regulated by five factors:

1. *Volume of business*—that is the total amount of business done in the year.

2. *Regularity of business.*—Business may fluctuate largely; thus there may be a heavy rush of orders in spring and very little in summer, or it may vary in successive months or weeks.

3. *Regularity of supply of raw material* which is bought in large quantity may effect a saving in cost. A larger working capital must be carried, if saving is to be effected by purchasing at irregular periods quantities of raw material in excess of that required for the regular output, for two reasons—(1) Excess of stock to be bought and stored; (2) bank balances must be larger than usual in order to be ready to meet payment for such material.

4. *The custom of the trade* in regard to credit and payment. In order to avoid carrying too much working capital, some manufacturing businesses make a practise of meeting accounts payable out of accounts receivable, in this way, that they buy on promise to make payment in 90 days, and sell their goods, giving buyers 30 days to pay in.

5. *The period over which the manufacture of a specific article extends.*—If it is long, then the maker must be denied the use of his money for that time, and still have to find materials, cost of labor, etc. This is especially the case in that of a ship-builder. It sometimes takes several years to complete a vessel on order. During that time, the builder will consume a tremendous supply of material, and consequently working capital must keep pace. One specific exception to the requirement of ample working

capital should be noted: a railroad company in course of operation.

Demand for their commodity—transportation—is regular and payment is immediate. Any materials that are used are for their tracks and buildings and consequently become part of fixed capital. Even here there is an exception. A railroad company expending immense sums on betterment and improvement should carry heavy working capital.

Need of Ready Cash.—In order to meet sudden calls, working capital has to be increased, and ready cash is the medium chosen. A corporation consolidation, for instance, must meet immediate needs. Working capital must be obtained or the new corporation will be put into bankruptcy right away. One of the first things effected by consolidation will probably be a change in the methods of operation. As products will be on a larger scale, buildings will have to be remodeled, and the old machinery will give way to more modern. The pay-rolls may be affected, new officers may be appointed, and more labor employed. All these changes call for a sudden increase of working capital, and the managers have to deal with a serious question of financing. Remember, it is working capital that is wanted; capital in the abstract is provided for by the giving of the consolidated company's securities for the subsidiary companies'. It is only actual hard cash which is wanting.

Borrowed Funds Legitimate.—One method of raising capital, as we have seen, is to borrow it, and this is quite a legitimate method. A general rule is laid down that a corporation should borrow as much as it can with safety. Here is a concrete example which will show clearly that borrowing is profitable.

A firm requires $200,000 to carry on its business and is producing an average net income of $12,000. If it should raise the whole amount by stock issues, the accruing dividend would be limited to 6 per cent.

Suppose, on the other hand, that only a portion of the

stock is issued, and the remaining money is obtained by borrowing, say as follows:—

Five per cent bonds	$100,000
Credits	20,000
Loans from banks at 5%	10,000
	$130,000
Then a stock issue of	70,000
Total capital	$200,000

Thus only $70,000 stock need be issued, and the income of $12,000, as before, will net $6,500, after interest charges of $5,500 have been deducted, giving the satisfactory return of 9.3 per cent.

The proportion of such funds in many well-managed corporations is usually about one quarter borrowed to three-quarters owned. This, of course, is all a matter of fixed assets. Under the old rule, bankers loaned 50% on quick assets, *i. e.*, those which are readily convertible into cash. For example, the banker is willing to lend money for raw materials such as crude rubber, which in the course of a few months would be manufactured into products selling for many times the original value. Such quick assets may be realized at stated intervals. Bankers do not care to furnish capital to a company for the purchase of its plant, but are willing to lend on quick assets. The company must furnish enough capital to begin their business, and have something tangible to show at the bank. While the latter will not pay for the plant, it is generally willing to pay for raw materials which may quickly be realized upon.

Instalment Plan of Cash Raising.—In order to provide for contingencies in which working capital has to be increased, corporations adopt the plan of selling stock on the instalment plan. That is to say, $100 shares are subscribed for, and on acceptance $25 is paid or some such proportion, and at intervals the holder is called upon to pay additional instalments until the $100 is fully paid. This method is usually preferred by purchasers as giving

them facilities which would be denied to them were payment in full to be made. This is only advantageous to the corporation when the sum to be raised can be accurately estimated before starting, such as in erecting an office building.

A difference must be observed in those enterprises where the unexpected may happen and consequently there may be a call for increased capital. Suppose you start a magazine. There is nothing to indicate how many months will pass before it is bringing returns. In that case in order to carry it on more capital will be required.

A method by which funds may be kept in reserve without actually handling them is to issue part paid stock. In this instance, stock is issued to an amount greater than is required. Instalments up to 50% or so are paid. The corporation then declares the stock to be part paid, and that no further instalment will be asked unless at the option of the corporation.

Two Problems for the Corporation Management.—We see now that the corporation managers face two problems, when they desire to raise capital funds the amount of which can not be estimated beforehand. Either a larger volume of securities than necessary is issued, involving a disposal of idle surplus funds; or, additional securities must be sold later when the moment of need arrives. The wise manner of dealing with either of these contingencies is not so much a matter of set rule as of existing conditions. The officers of a company when in doubt in such matters should call in the services of a public accountant. Many houses, in fact, have failed in times past when perfectly solvent. Their fatal defect was the inability to raise and apply working capital.

V

DEPARTMENTAL SUPERVISION

1. Importance and Methods

The Necessity for System—Four Aims of Industrial Organization—A Chart for Every Business—Importance of Division into Departments—Three Lines of Business Considered.

2. Factory Management

Only General Rules Applicable—Specimen Chart—The General Manager—Comptroller—Purchasing Agent—Chief Stores Clerk—Receiving Clerk—Assistant General Manager—General Sales Agent—Chief Order Clerk—Shipping Clerk—Superintendent—Assistant Superintendent—Chief Engineer—Chief Draftsman—Foremen—Tool-room Foreman.

3. System for a Wholesale Business

Essential Functions—Specimen Chart—Departments—Duties of Officers—Stores Department—Shipping Department.

4. System for a Retail Business

Trend of Retail Business—System a Necessity—Organization—Specimen Chart—The General Manager—Merchandise Manager—Duties of Buyers—The Superintendent of Employees—Superintendent of Accounts—The Superintendent of the Building—The Advertising Manager—The Superintendent of Deliveries—Deliveries—How Delivery is Facilitated—C. O. D. Deliveries—Exchange Service.

V

DEPARTMENTAL SUPERVISION

1. Importance and Methods

NO MATTER what one's line of business, too much emphasis can not be placed upon the necessity of perfecting from the outset a thorough organization and system. If a business house would hold its own, nowadays, it must pay the closest attention to these features. Reputation is not the sheet anchor to success that it once was. A business must now move forward or lose any foothold it ever had. Competitors are upon every side, and it is only by the study of improvements in saving of labor, time and money that they can be beaten off.

The Necessity for System.—There is an idea that system means red tape, and that the addition of clerical men to the staff or "non-producers" is a useless and foolish expense. On the contrary, it is system and organization which enables a firm to know whether they are getting the best from their workmen and machinery at the least cost.

It can hardly be believed that there are so many manufacturers and business men who are blind to the new era of business. But it is so. They realize that they are losing money, but can not place their fingers on the leakage of their profits. Once the idea of a change takes root, however, it begins to send out shoots in every direction. It takes time, it is true, but the results are noticeable, for it must be done without interrupting the regular output, or business of the firm.

Starting any business, care should be taken to perfect its organization. The object of any business organization

is to unite a number of individuals so that they may form one working body for the manufacture or sale of some specified product.

Four Aims of Industrial Organization.—The following are the four chief aims of an industrial organization, according to C. E. Woods:—

1. To unite individuals into a systematic body purposed to work together for a common end.
2. To unite in reciprocal and concrete relations and duties.
3. To bring into systematic connection and cooperation parts of a whole.
4. To prepare for the transaction of business by electing and appointing officers, committees and authorities over divided and subdivided parts of a whole business so that the duties of each shall correlate and cooperate with all.

These definitions show the first necessity of commercial or industrial organization—*i. e.*, cooperative working by the head of each and every department. Any organization that is not so working is diseased. It is just this lack of harmony and sympathy which has wrecked many a concern. They started out with the highest of prospects upon the outside, but paid too little attention to affairs within.

The first requisite for a good working system is a carefully prepared chart, showing the relation of the various departments to the business as a whole.

A Chart for Every Business.—The charts which we show herewith are merely illustrative and suggestive. Every business at its inception should prepare its own working chart, just as an architect plans a house. The laying out of such a chart as this is the very foundation for all administration and accounting required, and when laid out after this method and given the consideration due to any specific business, it clears up more questionable points and avoids more disputes regarding authorities and necessities than any method that has ever before been devised. It is wonderfully effective in this respect because

of the very simplicity employed in its construction, and once laid out a copy should be placed in the hands of every department head or other person having authority in the business.

It is necessary, as a first step, for analytical and other purposes to make a chart expressing all of the relations governing the organization of a business so as to show the very foundation upon which all authorities, accounting, and business transactions are based and conducted. There have been more failures scored both personally and financially for lack of these very elements in a business than by reason of any other one thing. As well try to build a house without a foundation as to try to conduct a business, especially a manufacturing business, without proper organization.

In most instances the application of new ideas has to be made to already existing plants, and in analyzing such for the purpose of determining most economical production, as well as a system for keeping costs and records, it must always be borne in mind that the first desideratum is the movement of product from raw material to finished units, irrespective of any geographical departmental conditions or locations already established, as it is only by this means that possible rearrangements and locations are attained.

Importance of Division into Departments.—Departmental division is a necessity oftentimes not well understood, and means much more than a mere division of authority. It is necessitated by the fact that different methods of procedure in the manufacture and marketing of goods require widely varying experiences One man may be better adapted for buying, another for selling, and another for collecting. For this reason, the division of a business into departments is controlled by two elements, viz.: The character of the labor to be employed, and of the material manufactured or sold. In order to plan the proper division, for example, of a manufacturing business into departments, it is necessary first to trace the route of the material from a raw state to a finished

product by progressive steps, and then arrange the departments in accordance with the requirements shown.

Three Lines of Business Considered.—Departmental supervision is primarily concerned with arranging all the machinery for conducting a business, by appointing managers, officers, and other executive officials over the various divisions and subdivisions of a factory or an office as a whole; so that they may form integral parts of the machinery working without friction. We have already dealt with the head or elective officers of a concern under the subject of *Organization* (p. 80). The present discussion is concerned with the various heads of departments under them, and their duties. It may be divided into three parts:

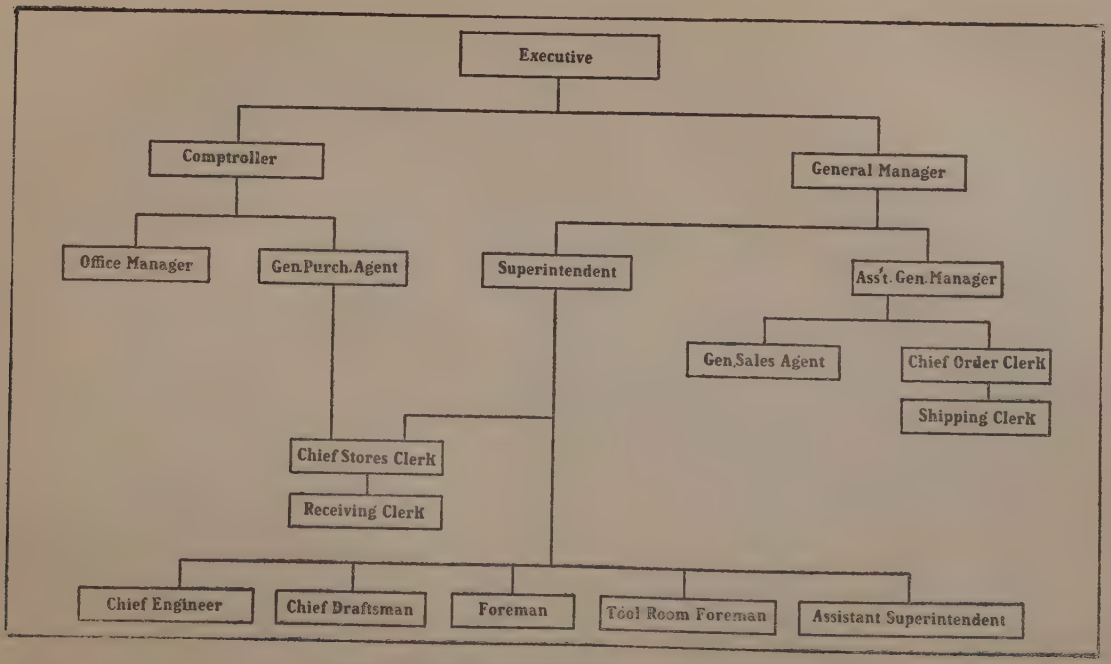
Factory Management.
System for a Wholesale Business.
System for Retail Business.

A subject closely related to the above is *Office System and Management,* which will be taken up in the next chapter in some detail.

2. Factory Management

In treating the system and management necessary for running a factory, only general rules, of course, are applicable. Each manufacturing concern has its own particular problems, such as Labor, Supply, Demand, Shipping Facilities, etc., so that it is manifestly impossible to do more than suggest outlines. Since there are widely differing methods of procedure in the manufacturing and marketing of goods, and in the administration necessary to produce these two processes, there is also a wide difference in the experience demanded from the persons in charge and the labor employed.

Only General Rules Applicable.—Before proceeding to a systematic definition of the various officers encountered in the average factory, we direct attention to the specimen chart herewith outlining their position. Of course,



SYSTEM FOR MANUFACTURING BUSINESS

this must necessarily vary with the size of the factory, and the nature of its output. A few general principles, however, pertain to every such organization.

In the manufacture alone, the number of materials used may be many; and a corresponding knowledge in their processing is required. This gives us two primary elements to work from; the character of material and the character of labor. So that in order to determine into what departments a manufacturing business should be divided, the first step is to classify the raw materials employed. From this it is easy to trace the line of necessary operations required to produce the manufactured article or articles. In an automobile works, for example, the foundry and blacksmith shops send their products to the various departments of the machine shop. The wood goes to the woodwork shop, and all meet in the assembling room.

In designing an organization it is necessary first to find out what the activities are, and what authority is required to direct them. The official heads of a manufacturing business would be (1) Executive and (2) Managerial. The Executive heads—Directors, Committees and elected officers—are described under *Organization* (p. 80). The managerial side is represented by the General Manager.

The General Manager.—Under the direction of the Executive, and the advisory committees, this officer is in full charge of all commercial and manufacturing affairs He is interested in:

(*a*) Sale of goods.
(*b*) Manufacture of those goods the quality of which he determines.
(*c*) Requisitioning of the materials required to make the output agreed upon.
(*d*) Financing the business.

(*a*) In the Sale of Goods, he should find out the cost of production of all goods made in the business, and by comparison with the prices of similar goods of other manufacture, fix the scale of selling rates. He decrees what is to be done in regard to credits and payments,

the advertising appropriation, and the apportioning territory to salesmen, with their salaries and other allowances.

(*b*) In the Manufacture of Goods, the general manager should know the kinds, qualities and quantities of raw materials to be bought, daily, weekly, monthly, etc., so as to study the economical buying. He should study the reduction of production, cost of new tools or machines or any equipment, and the method of increasing the units of output manufactured for every dollar spent upon labor.

(*c*) The Requisitioning of Materials emanates from him and passes to the comptroller and the purchasing agent.

(*d*) In the matters of Financing and Accounting, all general expenses and expenses for labor and material are under his care. He attends to the improvement or extension of the plant, estimating the amount required. He will be unhampered in the control of the expenditures upon material and labor, the accounting being done in the accounting department, which shall make the regular reports of progress, etc.

Equal in authority with the general manager, in some companies, is the comptroller. The first reports to the executive upon questions of government; the second upon questions of finance and stores.

Comptroller.—The comptroller is responsible for all questions of accounting. He should keep accurate records showing: (1) The progress and condition of the business, (2) cost of production, expenditures of the various departments, weekly and monthly, etc. He may thus be a great factor in effecting economies in buying material and in its use, and his work while ostensibly devoted to accounting is really that of an organizer, who does not let pass any single detail which will permit him to advise cutting down cost of production without loss of efficiency.

Purchasing Agent.—This officer is under the direction of either the comptroller or the assistant general man-

ager. He is not only empowered to purchase all regular and usual supplies and materials on behalf of the company, but he also takes care of them after purchase, and responsibility rests upon him as custodian of a certain amount of the assets of his firm. All material or supplies in excess of what is required for the regular production orders can only be purchased on authority of the general manager.

Purchases of any extent, and in fact all purchases, should be made only after bids have been received on specifications sent out, the lowest bid being accepted as often as possible; and all purchase orders, in order to protect the company, must contain, in contract form, all the terms of the agreement as to price, date of delivery, etc.

In order to assist the Cost Accounting Department the purchasing agent should have a systematized scheme of records, kept right up to date, which should contain (1) A complete reference file of price lists and catalogues of all materials and supplies, etc., used in the business, (2) a private card system of quotations, (3) a card system covering purchasing orders.

He should be supplied with detailed specifications of the materials required, and be assisted in every way with data which will aid him in purchasing to the best advantage as to quantity, quality and price.

Chief Stores Clerk.—Under the general purchasing agent, this clerk is responsible to him for all his work in handling inventories and maintaining a perpetual stores inventory system, all goods on receipt being posted on cards, before being stored away.

He is dependent upon the superintendent in all other matters, however. The superintendent provides his housing or storage room and the labor required in storing and removing from storage.

Anything which is bought by the purchasing agent passes into the chief stores clerk's charge as "general stores." It is inventoried and record of it filed until requisition is made for it from some of the departments. Material held in store should be divided into (1) "Rough

stores, or raw material," and (2) "Finished stores, or completed productions" held at the factory, and (3) "Purchased parts ready for assembling," which remain in store until delivered upon requisition.

Receiving Clerk.—The receiving clerk is under the chief stores clerk, has charge of the receiving of everything in the way of goods, equipment, and supplies which go to the storerooms. He must unpack all goods as received, and send the memorandum of receipt to the main office, where it is compared with the invoice of the consignor. The invoice is then sent to the chief stores clerk, who disposes of the goods.

He has also to check all supplies such as coal, oil, etc., received for factory use.

Directly under the General Manager are:

1. Assistant General Manager.
2. Superintendent.

Assistant General Manager.—The duties of this officer are varied. He is generally recognized as the general manager's deputy, though he usually exerts no authority over the superintendent or comptroller. His specific duties are to take care of the correspondence, receiving, opening, distributing, recording and filing. All requisitions for materials pass through his hands to the purchasing agent, all accounts payable are passed by him to the accounting department. He supervises the handling of sale orders, and estimates and specifications concerning them. He takes up with the general sales agent the question of advertising, according to the appropriations. Especially in the absence of a comptroller he must see that all monthly auditing of the company's business is prepared to be reported on by the general manager to the Board of Directors; and to furnish an inventory of all items of which he has charge.

General Sales Agent.—The duties of this officer are to hire and discharge all salesmen and to direct their movements; and at the same time he will be in charge of

the agencies and branch offices, for whose efficient conduct he will be responsible. The charge of all advertising contracts in magazines, etc., will be looked after by him, and the getting up and issuing of all advertising matter, catalogues, booklets, etc. Should an advertising expert be employed, he will be under his authority and his salary will be charged to sales. The delivery of goods according to contract is in his care as the highest authority of the department. The general sales agent should not be interfered with too closely as much of the success of the business depends upon him. It is usual to grumble that his expenses are enormous, but those who grumble forget that it is one thing to make the goods and another to sell them. If the expense of selling in certain lines of business, for example, is not over 10%, then the sales agent can be left undisturbed. He knows best what he must pay to get the best results, and the policy to be pursued by a firm should be one of liberality.

Chief Order Clerk.—All sales orders which have been examined and passed on as being backed by credit are accepted and transmitted to the chief order clerk, who will classify them in domestic orders, foreign orders, parts and repairs or whatever they may be. They are then checked and converted into shipping orders by the departments to which they are given. How the goods are produced is nothing to the clerk, all that concerns him is the date of delivery. But he should know whether sales orders are exceeding the rate of manufacture, or *vice versa,* and advise his superior. Overproduction of some non-selling article will thus be easily caught and remedied. If the goods are stock-goods, the order is handed to the superintendent. When goods are ready for shipping, the clerk receives and O. K.'s a note from the supply clerk, which he passes on to the accounting department so that the invoice may be sent.

Shipping Clerk.—This clerk has supervision over delivery of manufactured goods. All shipments must be made according to written instructions and written on

memorandum lists provided therefor. When the goods are ready for shipment, intimation must be made to the business or general manager, by whom final shipping orders are returned. This shipping clerk must be expert in modes and lines of transportation and charges. If the help he has is insufficient he can not himself engage extra hands, but must apply to the superintendent, who also O. K.'s his requisitions for packing material.

Superintendent.—This official is directly in charge of the manufacturing or shop work department of the business; and is responsible for the class of work turned out and the labor employed to do so. He appoints and discharges foremen, inspects all work, examines time-sheets, and maintains discipline. He is responsible for the condition of the plant and all equipment; for all safety appliances; all requisitions for material, machinery, etc.; and all allotment of work throughout the factory and its execution in point of time and quality. As he has charge of the engineering work, he will have under him a chief engineer in charge of the drafting department, experimental departments, etc. As the commercial side of the business depends on the superintendent for information of the manufacturing, he must always be prepared to advise or answer on any matters with which he is concerned, and the data which he has always on file as to all conditions of work, material, etc., under his charge will enable him to estimate on the time required to fill any order, and if need be to undertake an order out of the ordinary or one requiring to be rushed.

Assistant Superintendent.—The assistant superintendent is the deputy of the superintendent acting for him in stipulated matters. He is usually a mechanical engineer in charge of the primary power units, such as engines, motors, etc., and orders all supplies for their maintenance. He may also have charge of the Testing Room. His duties vary with the size of the plant and his own capabilities.

Chief Engineer.—The chief engineer has charge of all designing and pattern work, and also of the experimental work. He is held responsible for all designs from which the selling product is made and specifications for material, or equipment for its manufacture, if engaged in experimental work, which is devoted to the purpose of inventing or improving items which may prove a profitable salable product. It may be well for this officer to sign an agreement stating that all designs and inventions made by him in this capacity are the property of his employers.

The Chief Draftsman has charge of the staff engaged in making drawings for part or whole articles of manufacture, the drawings being according to some system of standardization agreed upon. When the drawings are completed, he should check them, and see that they are correct, before blue prints are made from them and given out to the proper working departments. He also O. K.'s all requisitions for drafting room materials; and keeps a proper file and record of the negotiations, prints and drawings made.

Foremen.—All separate departments are supervised by foremen, who are responsible to the superintendent for all tools and machinery in the department, for all the labor and for materials. The foreman lays out and divides the work to be done among his men, so that neither men nor tools will be idle; there should be no slackage in work, when work is to be done. The department must be kept clean and discipline maintained while a strict lookout should be kept for wastage or spoiling of material. The foreman does not hire his own men, but transmits a requisition to the superintendent. All time-slips must be checked by the foreman, before the work is passed on for inspection, and he must place the check number or clock number on them before distributing to his men.

An inefficient foreman means bad management, and a firm equipped with the best machinery may through its

foreman produce wretched results. When it is realized that they control the shop life of the men working at bench or machine, that they are responsible for the work done, and for getting the best results from the machinery installed, of which they should have special knowledge, it is obvious that they are a very important and vital factor in the business. The ideal foreman should be expert in knowledge of the best mechanical processes and the types of machines and tools which best fit the work he handles, while at the same time he should be capable of handling men. Usually, however, he is a promoted machine hand who has risen in the factory, and whose knowledge may be limited to the ordinary routine work he has done for years.

The management must remember that the workman measures up the attitude of his employer through the medium of the foreman; and is apt to blame the company for the whims of a bullying foreman or one who does not hesitate to favor his friends in preference to better workmen.

A foreman's duties are often so heavy that he can not properly keep an eye upon all the operations of his department. Accordingly he appoints from out of the most efficient workmen job bosses with some authority over small groups.

Tool-room Foreman.—A special foreman should be placed in charge of the tool-room, in which are the machines and special tools, such as the cutting tools made there, available to the other departments, on requisition from them. The work is arranged between the foremen of the other departments and the tool-room foreman, who may be permitted by the superintendent to fill requisitions without his O. K. He has authority over the labor employed in his department, and is responsible for all materials from the company's stores. In filling requisitions he must note to what department work done in the tool-room should be charged, or if it should go against productive charge when items are for sale. In the making of tools, the charge, if for a single job, should

be borne by that job, but if for a product which is being regularly made, the expense should be distributed over a period, as for example 50% the first year, and 25% each the two following years.

The duties of this foreman may be united in certain manufacturing plants with those of the head foreman or superintendent, as the tool-room is a center of supplies.

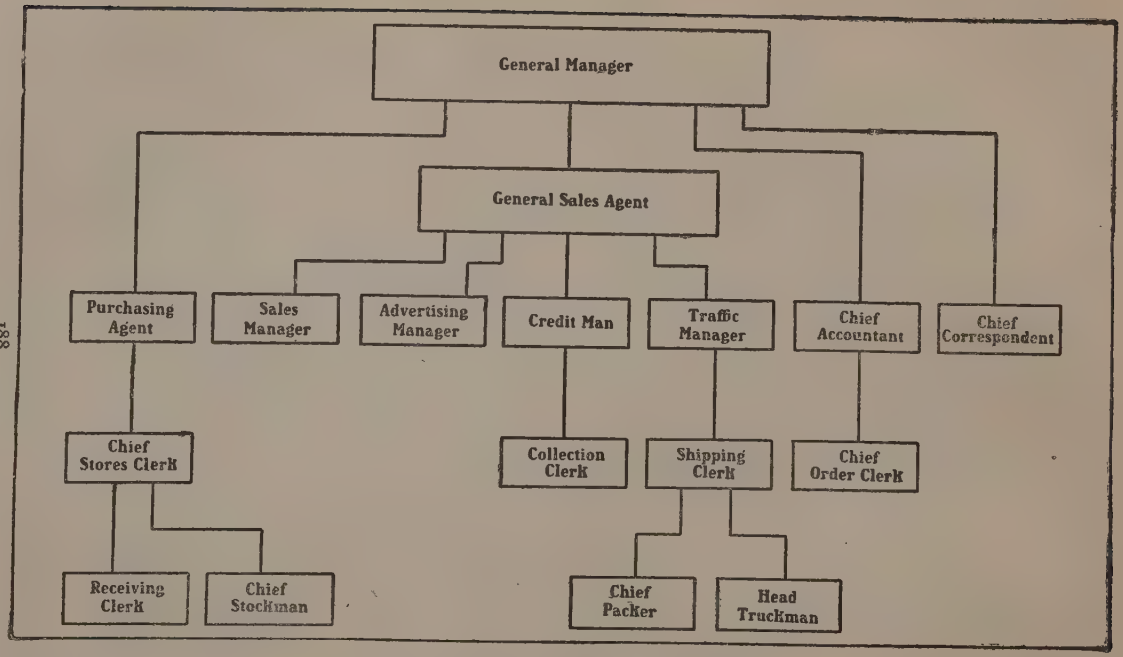
3. System for a Wholesale Business

Numerous as are the different kinds of wholesale business, and varied as are the methods and character of such concerns, certain fundamental principles of organization pertain to all.

Essential Functions.—The essential functions that must be performed in every such business, large and small, are as follows:—

1. Buying.
2. Receiving and storing.
3. Selling—including advertising, actual selling, extending credit and forwarding sales orders for execution.
4. Executing sales orders, including assembling of goods, packing and shipping.
5. Recording both buying and selling transactions and all other monetary transactions of the business.
6. Collecting money due.

It is, therefore, along the line indicated by this division of functions that all plans for organizing a commercial business must proceed. In a large concern, one person, or a staff of persons, will be required for the performance of each of the duties enumerated. In a very small concern two or three people will be sufficient for all purposes. In the present discussion a concern of fairly large size will be assumed, as the organization required by such a concern can very readily be condensed and simplified to meet the needs of smaller houses. The Specimen



SYSTEM FOR WHOLESALE BUSINESS

Chart given herewith outlines the names and relations of the various department heads and other officials.

Departments.—Following the division indicated, there will be, in a wholesale mercantile house, under the supervision of the general manager or proprietor, the following departments which are to a certain extent inter-related:

1. Purchasing Department, whose duty is to replenish stock.
2. Stores Department, which receives and stores goods till needed.
3. Sales Department, which has charge of all selling.
4. Advertising Department, which is often an adjunct of the Sales Department.
5. Credit Department, which passes upon all sales and accounts.
6. Order Department, which fills all requisitions.
7. Traffic Department, which decides upon the routing and shipping, and checks shipments and freight bills.
8. Shipping Department, which assembles all outgoing goods, packing and shipping them as directed.
9. Collection Department, which has charge of outstanding accounts.
10. Accounting Department, which records all transactions.
11. Correspondence Department, which has charge of all letters and documents, and general filing work for all other departments.

It may be assumed from the above division into departments, that each department named is independent and coordinate. Such is not the case. As in a manufacturing concern, the head of the stores department (the chief stores clerk) is a subordinate of the head of the purchasing department—the purchasing agent. The order department is subordinate to the accounting department, while the collection department is almost always a division of the credit department. The shipping depart-

ment, too, is under the direction of the traffic department which in turn is usually subordinate to the sales department. Frequently, too, both advertising and credit departments are subordinate to the sales department; or, as is often the case in large concerns, the sales, advertising, credit, and traffic departments are all organized coordinately into one large Sales Division headed by a general sales agent.

Duties of Officers.—Following the above scheme of departmental supervision and the Specimen Chart, it seems only necessary at this place to define the duties of the various officers.

The General Manager has supervision and direction of purchases, sales, the fixing of prices, the outlining of the sales, advertising and credit policies and of accounting methods. All the department heads are responsible to him; he himself is responsible only to the executive or proprietor.

The Purchasing Agent has charge of all the purchases, subject to the approval of the general manager. He is also charged with supervision of the stock, which he controls through an assistant known as the chief stores clerk.

The General Sales Agent has supervisory charge of all those departments of the business which directly affect the sales—namely, the sales, advertising, credit, and traffic departments. Frequently, as indicated above, these supervisory functions are performed not by a separate official, but by the head of the sales department—the sales manager.

The Sales Manager, whether or not he also has charge of the advertising, credit and traffic departments, has, in the sales department proper, the direction of all salesmen. He hires and discharges them, lays out the territory to be covered by each of them, and directs their movements; in addition he personally handles all correspondence relating to sales and orders.

The Advertising Manager, under the supervision of the general sales agent, or the sales manager, determines

the manner in which the advertising appropriation shall be expended, and supervises the clerical and detail work connected with the advertising. His duties and powers are subject to the character and scope of the business.

The Credit Man determines whether credit shall be allowed at any given time and on any given order. He is also, usually, charged with the collection of accounts due. For this work he has a collection clerk who handles all the detail.

The Traffic Manager decides upon the routing of all freight, both incoming and outgoing, upon which freight charges are to be paid; and keeps track of the movement of each piece of freight. He must see that the outgoing freight is shipped on time. He is, therefore, the superior of the shipping clerk, who attends to the actual shipment of the goods. He also audits all freight bills and presses all claims for overcharge, loss or damage, against the transportation companies.

The Chief Accountant is charged with the accounting for the receipt and expenditure of all money, and for the recording of all transactions involving money. For the purpose of convenience, the clerk in charge transcribes orders received and distributes copies to the various departments requiring them. The chief order clerk is commonly a subordinate of the chief accountant. The chief accountant is also charged with the preparation of all statistical information.

The Chief Correspondent takes charge of all correspondence, both incoming and outgoing, its distribution and filing.

As in a manufacturing concern, the working forces of the purchasing, advertising, credit, order, traffic, collection, accounting and correspondence departments of a wholesale house, and the inside working forces of the sales department, are commonly located together in one office or office building, distinct and separate from the quarters occupied by other departments of the business. It has therefore been thought advisable to consider the work of these departments under a separate head. See *Office System and Management,* treated in next chapter,

for a more systematic discussion of the function, organization, and methods of each of the departments named. The present section will be confined to a brief description of the organization and workings of the two departments of a wholesale business which are outside of the office—namely, the stores and shipping departments—showing their relation to each other and to the administrative heads.

Stores Department.—It is the function of the stores department to receive and take account of all goods purchased; to store them so that they may be easily found and removed as needed; to issue goods upon proper requisition; and to keep such records as will show, at any time, all goods received, issued and on hand.

The stores department is headed by a chief stores clerk, who is under the control of the purchasing agent. The chief stores clerk is assisted by a receiving clerk and as many stock-room assistants, known as stock men, as may be required.

The duty of the receiving clerk is to receive all goods which he has been ordered by the purchasing agent to receive, and to note their condition and quantity, reporting same to the purchasing agent, either directly or through the chief stores clerk. The order from the purchasing agent usually comes in the shape of a duplicate copy of the original purchase order, with the prices, and, if desired, the quantities omitted. Against the duplicate order the receiving clerk checks the goods as received.

When a properly executed order is received the chief stores clerk issues orders to his stock men (each of whom should be especially familiar with a particular section of the stock-room) to deliver the goods called for to the shipping clerk.

It is the duty of the chief stores clerk to keep, or to have kept, a so-called perpetual inventory. This is properly not an inventory at all in the sense that an inventory is a record of goods on hand by actual count. The perpetual inventory is obtained, not by count, but by the

comparison of the totals of goods received and goods disbursed. A form for such an inventory may be kept in a loose-leaf ledger, one page or more being provided for each separate article. In separate columns are listed the quantities received, the quantities given out and the balance on hand. The balance is entered after every receipt and disbursement and therefore shows at a glance just how much of the given article is on hand.

It is a good plan for the chief stores clerk to make up at the beginning of each day a summarized statement of the stock on hand. This can be made on a form sheet, all the items being arranged in the same order as in the inventory loose-leaf binder, with the units printed and a blank left for the quantities. By means of such a report, which can without difficulty be made out in duplicate or triplicate, the purchasing agent and general manager are enabled to see at a glance the exact condition of stock every morning.

A common practice is to set a low-stock limit on each article, or on the more staple articles, it being the duty of the chief stock clerk to inform the purchasing agent as soon as this low-stock limit has been reached. This method can readily be conjoined with the daily report just described by having these items which have fallen below the assigned limit entered in red ink.

The assembling of goods ordered is sometimes placed under the supervision of the shipping clerk. It more properly comes under the direction of the chief stores clerk, however, as, under his management, it permits of a more accurate keeping of the perpetual inventory, and is, in addition, less likely to cause friction between the stores and shipping departments.

In large concerns, considerable difficulty is frequently found in the filling of an order that contains, as do many orders, items kept in widely separated parts, or often different floors, of the stores department. The most economical method of handling such an order is to have several duplicate copies of it given to the stores department, to be distributed in that department to the various divisions which are to fill any part of it; or better still,

to have the items on the filling order arranged in groups, according to section or floors of the storerooms (previously fixed and communicated to the order department) in which they are to be found. The order is furnished in duplicate to the chief order clerk. He cuts one of the copies into slips, as represented by the several sections, and gives each slip to the stock-man in charge of the corresponding section (having personally placed on the slip the order number for purpose of identification). Either of these plans permits each section of the stores department to work up to its capacity without waiting for the other copies to be handed over to it by some other section.

Shipping Department.—It is the function of the shipping department to obtain from the stores department such goods as it has been ordered to obtain by the order department; to pack such goods in the manner prescribed by the traffic department; and to deliver them, properly marked, to the freight house or wharf designated by the traffic department, obtaining properly executed receipts, usually in triplicate, therefor.

The shipping department is headed by a shipping clerk, who, if there is a traffic manager, is subordinate to that official. In very many concerns, however, a single individual combines the functions of both. As stated above, only the work of the shipping department, as distinct from the traffic department, will be here treated.

The shipping clerk will be assisted by packers, porters and truckmen. He will assign these helpers to their duties, will supervise their work and handle the checking records made by them.

The routine of the shipping department may be briefly described. When the order department transcribes an order received, it makes out one copy for the shipping department. This copy the shipping clerk will file in a tickler under the date of promised shipment, or, if desired, one day earlier. When the order comes up for attention, the shipping clerk, if he has not already received the goods, notifies the stores department. If that de-

partment should fail to deliver the goods to him on time, he notifies the order department. When he has received the full order for shipment, he ships and returns his copy to the order department, as notice that he has shipped. If desired, the order department may later return this copy to him, to be kept by him as a record of shipment.

One of the most important duties of the shipping clerk is to see that accurate record is kept of quantities shipped. If possible, a man should be assigned with each packer to keep check on the quantities packed. Such check can readily be entered on the order copy, in columns corresponding to those reserved on the original order for prices.

To secure greater care in packing it is an effective method to place in each crate or case packed a packer's slip containing the name or number of the packer and a request that in case of a complaint on the ground of shortage or breakage, the packer's slip be returned. It is a frequent occurrence in concerns which make shipments over a number of different railroads or boat lines to have their truckmen make mistakes in the delivery of freight houses. A method of reducing such errors to a minimum has been devised and tried with great success. Each railroad over which the concern is accustomed to ship is assigned a distinctive color. This color is associated in as many ways as possible with all the freight routed over that railroad. The routing labels, dray tickets, and if desired, even the shipping and packing orders are of that color. With this system it is difficult for even the most unlettered teamster to go wrong.

In some respects the work of the shipping department is closely related to that of the traffic department, which has been included in the chapter on "Office System and Management."

4. System for a Retail Business

Stupendous and far-reaching as have been the changes worked in all forms of industry within the last genera-

tion, in no kind of business has there been a greater transformation than in the retail store. The department store, a novelty but a few decades ago, is now to be found in every town. The wonderful development of passenger transportation, making almost every town accessible by trolley from the remotest hamlet, has made it possible for even the "backwoods" housewife to go to town to shop. As a result, retail business, like manufacturing, has tended more and more to become concentrated in larger and ever larger establishments. There can be no question but that the department store is the retail store of the future.

System a Necessity.—Organization and system are vital necessities to any business; to the retail business they are absolutely indispensable. In proportion to the amount of business done, the retail store deals with incomparably more customers, employs more people, and therefore requires attention to more detail than does the wholesale business.

If we should take, for example, the retail department store of Marshall Field & Company in Chicago, one of the most successful department stores in the country, we are presented with an organization of almost inconceivable magnitude. Occupying seven-eighths of a square city block, and with a total floor area of over twenty-three acres, it employs a regular force of eight thousand people, which in rush seasons, as at Christmas, is enlarged to ten thousand. Fourteen entrances and fifty-three elevators are required to accommodate the one hundred and twenty-five thousand shoppers who enter the store every day.

Needless to say, a force of buyers must constantly be engaged in gathering merchandise from all parts of the world to keep up the stocks of this vast establishment. The goods when received must be checked and priced, tagged and distributed to the various departments; there they must be properly displayed and kept in order; they must be advertised and pushed. The management of the small army of employees needed to perform all these

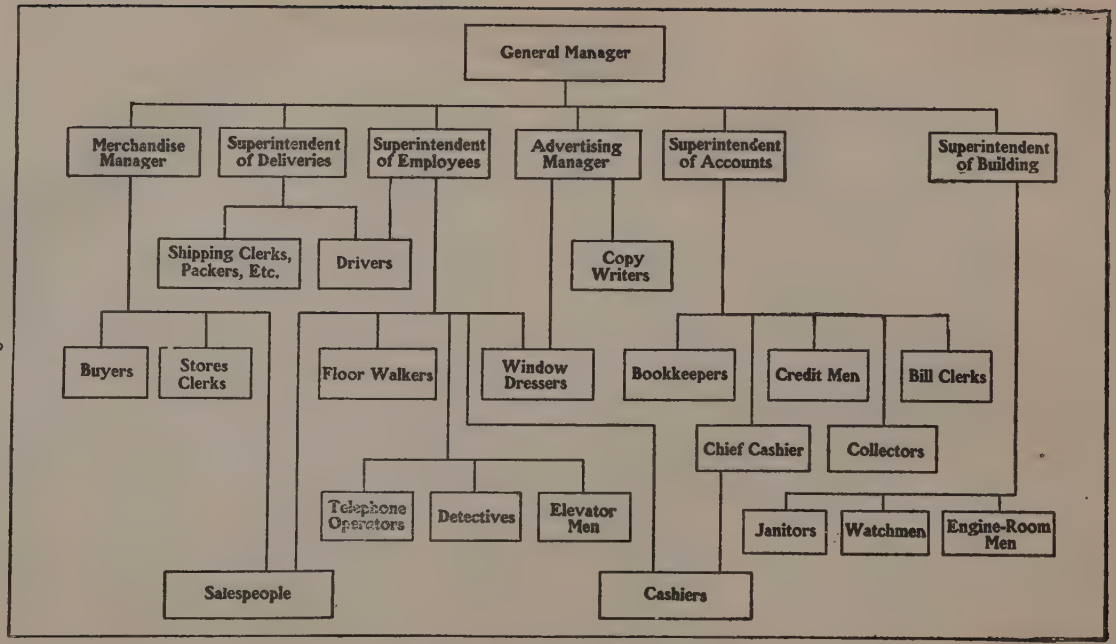
duties is in itself a task of colossal proportions and one of the most important in the store.

The necessity for thorough organization and system in an establishment of such magnitude is, of course, too obvious to require comment. But system is equally useful in any retail business, no matter what its size. The present section will therefore be devoted to a description of the manner of organization of a retail business (a store of considerable size being chosen in the belief that such a description can more readily be compressed than expanded by the reader to meet his own needs), and of the systems employed in the solution of such distinctively retail problems as deliveries, C. O. D. purchases, etc.

Organization.—Like all other forms of business, the retail store requires a single controlling head, represented in a small concern by the proprietor and in a larger one by the general manager. The various superintendents, managers and clerks under his personal charge throughout the store are indicated in the accompanying chart.

The General Manager is, in fact, the active head of the business. He is familiar with all its phases. He advises and instructs the managers of the various departments as to the general policy to be pursued by them. By means of reports received from them he controls and supervises the work of their several departments. In addition, he acts as a sort of clearing house of ideas between the various departments. It is a common practise in large department stores for the general manager to call periodical meetings of all the important officers of the store and lay before them, in an informal way, the various ideas and plans for improvement that have come to him, either from his own observation or through the suggestions of his subordinates.

The general manager controls the operation of the store through six principal officers: The merchandise manager, superintendent of employees, superintendent of accounts, superintendent of building, advertising manager, and superintendent of deliveries.



SYSTEM FOR RETAIL BUSINESS

Merchandise Manager.—The single point in respect to which retailing organization differs perhaps most radically from manufacturing or wholesaling organization is in its function of the buying and selling functions. In the latter class of business, the two functions are kept clearly distinct; in the retail business they are always combined in the same individual, known usually as the merchandise manager.

The merchandise manager has general charge of the buying and selling of all goods. He supervises, more or less closely, the work of the various section heads, known as "buyers." Each department of the store, as for instance the furniture department, is in charge of a "buyer," who decides what is to be bought and at what price it is to be sold. The buyer is in complete control of his own department, being held accountable for the profit showing of his department at the end of the year.

The control of the merchandise manager varies. In some stores he merely exercises general supervision and coordinates the activities of the various sections, as for instance, in the matter of bargain sales. In others, he maintains strict control over the buyers; buyers are not permitted to purchase goods without his approval. If a department is very large and the goods handled are of considerable variety, it is common to have the department subdivided, each subdivision being headed by an assistant buyer, who performs in his division the functions performed by the buyer for the whole department, being subject, of course, to the strict supervision and control of the buyer.

Duties of Buyers.—In addition to buying, fixing the prices, and controlling the sale of goods, the buyer or assistant buyer has charge of all the salespeople in his department, instructing them and directing them as to selling methods and details. He does not, however, control either their employment or discipline, these matters being left in charge of the superintendent of employees, as will be explained later.

In addition to exercising, through the buyers, a general

supervision over the purchase and sale of all merchandise and over all salespeople, the merchandise manager has charge of the stores department and of the mail-order department. The stores department is, as in a wholesale house, headed by a chief stores clerk, assisted by a receiving clerk and a stockman. The mail-order department is manned by correspondents, filing clerks, etc., under the charge, if sufficiently numerous, of a chief correspondent and chief filing clerk.

The Superintendent of Employees occupies perhaps the most important position in the whole store—the one, at any rate, which is capable of exercising the most direct and personal influence upon the entire character and reputation of the store. In spite of the importance of the superintendent of employees, however, it is extremely difficult to define his precise function. In general terms he may be said to have supervision over all those persons who come into contact with the public—including salespeople, floor-walkers, house detectives, telephone operators, returned goods clerks, elevator men, cashiers, delivery wagon drivers, wagon boys, etc.

The superintendent of employees, either personally or through an assistant, hires, discharges, and transfers all the classes of employees named above. If a buyer needs more salespeople in his department, he does not take steps to hire them himself but notifies the superintendent of employees, who obtains the desired people and sends them to the buyer for instructions, and so on throughout.

The disciplinary control of salespeople, cashiers, etc., is maintained by the superintendent of employees through assistants, known as assistant superintendents, each of whom is usually in charge of a floor, in which case they are commonly known as floormen. If the floors are large, the floorman is assisted by one or more "floor-walkers," who, in addition to directing and assisting customers in every way in their power, exercise general disciplinary supervision over the salespeople and cashiers in their respective sections. The floor-walker also takes personal charge of all exchanged and returned goods

transactions, acting as an intermediary between the sales counters and the returned goods bureau. The floorman also takes direct charge of all detectives and time-keepers on his floor, reporting on same or on special matters to his chief.

It will thus be seen that the superintendent of employees, either directly or through his subordinates, exercises control over salespeople, cashiers, drivers, and wagon boys, among others. Such control is purely disciplinary, however. In the actual performance of their detailed duties, these employees are under the authority of the heads of their several departments—the salespeople under their department buyers, the cashiers under the head cashier, who is a subordinate of the superintendent of accounts; and the drivers and wagon boys under the superintendent of deliveries. A similar partial control is exercised by the superintendent of employees over the window dressers and show-card writers, though their actual work is supervised by the advertising manager.

Superintendent of Accounts.—The head of the accounting department, usually known as the superintendent of accounts, has charge of all the records of the business, especially those involving money in any way. In the exercise of this function, he must devise all the accounting and recording systems of the store. Besides the purely accounting work, his department also takes care of credits and collections, and, usually, of the purchase of store and office supplies, especially stationery and printed forms. The superintendent of accounts will therefore be assisted by bookkeepers, credit men, collectors, pay clerks, and a purchasing agent. The cashiers of the store will also be responsible to him, though under the disciplinary control of the superintendent of employees, as above stated.

The departments already described—the merchandise, employees, and accounting departments—are far and away the most important in the store. Nevertheless, the remaining departments are of high importance, and their

proper organization and conduct are vital to the success of the store.

The Superintendent of the Building is charged with keeping the building and equipment in all its parts, including lighting, heating, water supply, plumbing, and, if there be any, pneumatic tube or trolley carrier systems, in perfect repair and operation; he must see that the store and surrounding sidewalk are kept thoroughly clean; and must provide for the proper protection of the store against fire, weather and robbery. He will therefore be assisted by janitors, engineers, watchmen, fire inspectors and a repair force, consisting of carpenters, plumbers, etc. In case any very considerable repair or alteration of the building is necessary, he will have charge of the placing and execution of the contract for it.

The Advertising Manager, in addition to preparing or supervising the preparation of copy for newspaper advertisements and for all special forms of advertising, has charge of the window trimming, show-card writing and special display work. He does not control, except through suggestions, the display of goods within the individual departments; and in the window and other display which he does control, he cooperates closely with the merchandise department. In the matter of newspaper advertising, he must work in the fullest harmony with the various merchandise sections, for he is entirely dependent upon them for his material.

In addition to advertising and display work, the advertising manager controls all special sales promotions. Under this term are comprehended all attempts at securing the patronage of particular classes of people, such as teachers, clergymen, etc.

The Superintendent of Deliveries, as his name implies, is charged with the prompt delivery of all goods to customers. He is assisted by merchandise collectors, who periodically make the rounds of the store, collecting the articles to be delivered; by packers, who pack all those

articles, such as furniture, crockery, etc., as can not be conveniently packed in the department selling them; by shipping clerks who assort the packages according to the route of delivery and keep the records necessary to check the drivers; and by drivers and wagon boys, who, as stated before, are also, in respect to discipline, under control of the superintendent of employees.

In the organization as above laid out, the six departments named are treated as coordinate. In many stores, however, the advertising manager is a subordinate of the merchandise manager, while the superintendent of deliveries is subordinate to the superintendent of employees. In any case, the internal organization of the advertising and delivery departments will remain the same.

In the above description, grouped as individuals, bookkeepers, credit men, and the like, have been frequently referred to as being subordinate to their respective department heads. It is, perhaps, unnecessary to add, wherever any of these groups is sufficiently numerous, it will have one of its number in direct charge, *i. e.*, there will be a head bookkeeper, a head credit man, a head cashier, etc.

Deliveries.—As shopping tends to be done to a greater and greater extent in establishments fairly distant from the homes of the shoppers, the problem of deliveries also becomes more important. A prompt and efficient delivery service is one of the prime elements in the success of a retail store. A simple and effective delivery system, suitable to the needs of a fairly large store, but readily adaptable, if necessary, to the requirements of a smaller establishment will be briefly outlined.

A plainly written delivery label is the first requisite of a good delivery service. To secure this it is best to have the delivery label written, not by the shipping clerk, but by the salesman or saleswoman herself. The plan of using the duplicate sales slip as a delivery label is not to be commended, as the duplicate is frequently illegible and does not provide for sufficient detail. The sales-

person, having properly labeled the package for delivery, places it in a bin specially provided for the purpose, whence it is collected by the merchandise collector on his next periodical trip, and taken to the shipping room. As soon as the goods reach the shipping room, they are assorted according to the wagon route (or in the case of suburban deliveries, the express company) by which they are to be forwarded.

To facilitate this assortment, the shipping room is provided with large bins (or in the case of heavy articles, such as furniture, the floor space of the shipping room is divided into sections), each bin corresponding to a wagon route. A further aid to assortment is for each wagon route to be assigned a distinctive color, and labels of all the various colors having been supplied to the salespeople, for them to select a delivery label of the proper color, when making it out. This plan, of course, would be rather difficult to operate in the case of a large establishment running a great number of wagons. Even here, however, it could be used to indicate not the individual wagon routes, but five or six grand divisions of the city.

How Delivery is Facilitated.—The prompt delivery of packages is facilitated if the salesperson, in asking the customer his address, will also inquire and note near what street it is.

Before the driver leaves with his packages, he must give the shipping department a receipt for them. There are two methods of recording such a receipt. One is the so-called delivery sheet, on which the driver records all the packages he has received, writing the sheet in duplicate, one copy for himself and one for the shipping clerk. This system is worth while in a business where, owing to the value of the packages delivered, it is deemed advisable to secure a receipt; for the customer can be asked to sign on the delivery sheet. Where such receipt is not desired, however, it will save time if the delivery label is made out by the salesperson in duplicate. The duplicate can then be initialed by the driver when he

receives the package, and held against him as a receipt by the shipping clerk.

In recent years, especially in larger cities, it has been found that small motors are now more satisfactory than horse-drawn vehicles, being used in conjunction with large motor trucks which haul large quantities to suburban distributing points.

C. O. D. Deliveries.—It is needless to state that the check on C. O. D. packages must be even more perfect, if possible, than the check on prepaid deliveries; for in the case of the former the driver acts also as collector.

When a C. O. D. purchase is made, the salesperson makes out the sales slip in duplicate and also the address label; the address label being, however, of different size, color, or make-up from that used for prepaid deliveries. The sales slips in duplicate are sent to the office, where a C. O. D. clerk enters the sale on a C. O. D. register and also prepares a C. O. D. tag. This tag has three parts, defined by perforations. On the upper part, *i. e.,* on the end by which the tag is to be attached to the package, is pasted the duplicate sales slip. The other two parts provide for the name and address of the purchaser in duplicate. The tag, properly made out, is sent to the shipping room by the C. O. D. clerk while the original sales slip is retained by him. The package itself has meanwhile, like the prepaid packages, been sent to the shipping room, where it is held pending the receipt of the C. O. D. tag from the office. When the tag arrives, it is attached to the package and the packages assorted. The driver then tears off and initials the lowest third of the tag, as a receipt for the shipping clerk. The middle section he turns in to the shipping clerk with his collection. The duplicate sales slip remains with the package, serving as a receipt to the customer.

The method here described will require slight modifications in certain forms of retailing, but its essential features—the check maintained by the office upon each C. O. D. package sent to the shipping room, and the

check maintained by the shipping clerk upon each package delivered to the driver—need not be changed.

Exchange Service.—All merchandise which has failed to give satisfaction should be exchanged or redeemed, at choice of customer, unless it was sold with the understanding that it could not be returned or has become unsalable because of having been used, because of careless handling, or because of length of time between dates of purchase and return.

When merchandise is sold to employees, retail or wholesale, at special prices, the figures on the goods should be changed to indicate that fact, so that if they are returned for any reason, it will not be possible for them to be credited at regular retail prices.

When merchandise is returned by customers, salespeople should not accept the same for credit, but refer the matter to the exchange desk. If a customer complains or fails to understand just what is expected, the salesperson will call the floor-walker.

Those in charge of exchange desk will issue credits or receipts without delay to the customers, subject, of course, to the conditions noted above. If cash credits are sought, they must know that the goods were originally bought for cash. Every store sells merchandise similar to that sold by other stores; occasionally some neighboring house cuts the price for a day or so upon some leading brand of goods, and it is very possible for one so inclined to purchase at that time and bring the same to some other store for credit at the full price. Unless the original cash ticket accompanies the goods, there is no certainty that the goods were purchased as claimed.

Exchange clerks will issue no credits or receipts without knowing the figures they write to be correct. They will extend these figures with great care, and check them over to see that they are right. Carelessness in issuing credits and receipts is exactly the same as carelessness in the handling of currency, and immediately places at a slight value the signatures of those authorizing them.

All packages to be returned, coming through the re-

turned goods bureau, will bear the name and address of the customer upon the wrapper, and will be stamped "credited," with the date over the name on the wrapper.

Floor-walkers and returned goods bureau will see that the proper signatures are affixed to the respective credits. Authorized signatures must have name written out; not in initials or monogram.

Whenever a customer wishes to return an article and take another from the same section upon which there is to be a difference paid, the salesperson may issue a check for the amount of the difference. Such checks must always have the signature of the buyer and the floor-walker. These difference checks will be made on all transactions, whether goods are to be taken or sent. If sent, the check will accompany the purchase as usual.

Whenever an article is exchanged for one lower in price, a cash credit for the difference will be made, provided the customer wishes to take the goods with her. If goods are to be sent, the credit must be made to cover the whole amount, and new tickets written. Difference credits should not be issued in C. O. D. transactions. When a sale is made for which a cash credit is received in payment, the salesman will write his name on the back of it before handing it to the floor-walker. The number of the floor-walker will be stamped on back of the credit.

VI

OFFICE SYSTEM AND MANAGEMENT

1. The Office as a Whole

Departments of the Office—Office Manager.

2. Purchasing Department

Duties—Organization—Records—Catalogues and Price-Lists—Special Quotations—Orders Placed—Purchase Orders.

3. Advertising Department

Relation to the Office—Functions—Records—Information—Proofs—Designs and Cuts—Rate Cards—Keying Systems—Recording Results—Street Car and Outdoor Advertising—Retail Advertising.

4. Sales Department

Two Kinds of Selling—Personal Salesmanship—Route Records—Travelers' Records—Mail-Order Sales—Follow-Ups.

5. Credit Department

Functions—Records—Treatment of a New Order—The Limit of Credit.

6. Collection Department

How Conducted—Duplicate Invoice System—Tickler Tabs—Sight Drafts.

7. Traffic Department

Duties and Functions—In-freight Methods—Out-freight Methods—Claims.

8. Order Department

Duties—Methods—Routine—Additional Copies of Orders.

9. Accounting Department

Orders for Purchases—Receipt of Goods—Cash Accounts—Petty Cash—Sales Record—Returns and Allowances—Ledgers—Results of Operations.

10. Correspondence Department

Incoming Mail—How to Handle Letters—Taking Dictation—Short Cuts—Routine Letters—Telegrams—Phonographic Dictation—Filing—Systems.

VI

OFFICE SYSTEM AND MANAGEMENT

1. The Office as a Whole

THE last few decades have witnessed an unprecedented growth in the use of records of all sorts. Statistics, figures, facts; these are the bases upon which every activity of to-day—legislative, political, or commercial—is based. The days of rule of thumb have passed away never to return. In no field of activity is this more true than in business. Success in modern business demands not only commercial shrewdness—the ability to buy in the cheapest market and sell in the dearest—but it also demands accuracy. In every office the keeping of scientific, systematic and available records of all the transactions and all the facts is a prime requisite of the business. Proper organization and systematic conduct are the right and left arms of the successful business.

Departments of the Office.—No hard-and-fast rules of office system and organization can be laid down. Such system and organization vary somewhat with the nature and magnitude of the particular business. In a concern which disposes of its entire output to a dozen large customers, the entire work of the credit department can be handled by one man, merely as a side line; while an establishment which sells to thousands of retailers all over the country will require the services of a score of people in the credit department. Irrespective, however, of the number of people required, the things to be done by the office and the ways of doing them, in any business, will be essentially and fundamentally the same.

The functions to be performed in an average office

demand its division into nine distinct departments, as follows:

Purchasing Department, which has charge of obtaining the goods or materials needed by the business.

Advertising Department, which makes the product known to the public, or to the trade.

Sales Department, which disposes of the product to the trade. The work of this department is, usually, merely supervisory or auxiliary, the actual work of the department being done by salesmen on the road. In many houses, however, orders are obtained through correspondence.

Credit Department, which decides upon the proper terms to be allowed the purchaser.

Order Department, which receives and records the order, sending copies of it to various departments which are to fill and ship it.

Traffic Department, which keeps records and data needed for routing both incoming and outgoing shipments; deciding upon such routing; and checking shipments and transportation bills.

Collection Department, which rounds up outstanding accounts.

Accounting Department, which keeps record of the receipt and expenditure of all moneys, and of the condition of all property, figuring costs and pay-rolls, and keeping all necessary statistics.

Correspondence Department, which receives and distributes incoming mail and supervises outgoing mail.

In large offices where several departments such as the above are necessary, it is advisable to have an office manager. His duties as well as those of the departments will now be considered more fully.

Office Manager.—Like any division of the business, the office should have one individual in general charge of it—to have supervision of the workers in it, their employment, their work, and their discipline. In very large concerns, these duties themselves are sufficient to require the entire time of a very capable man, who is called the

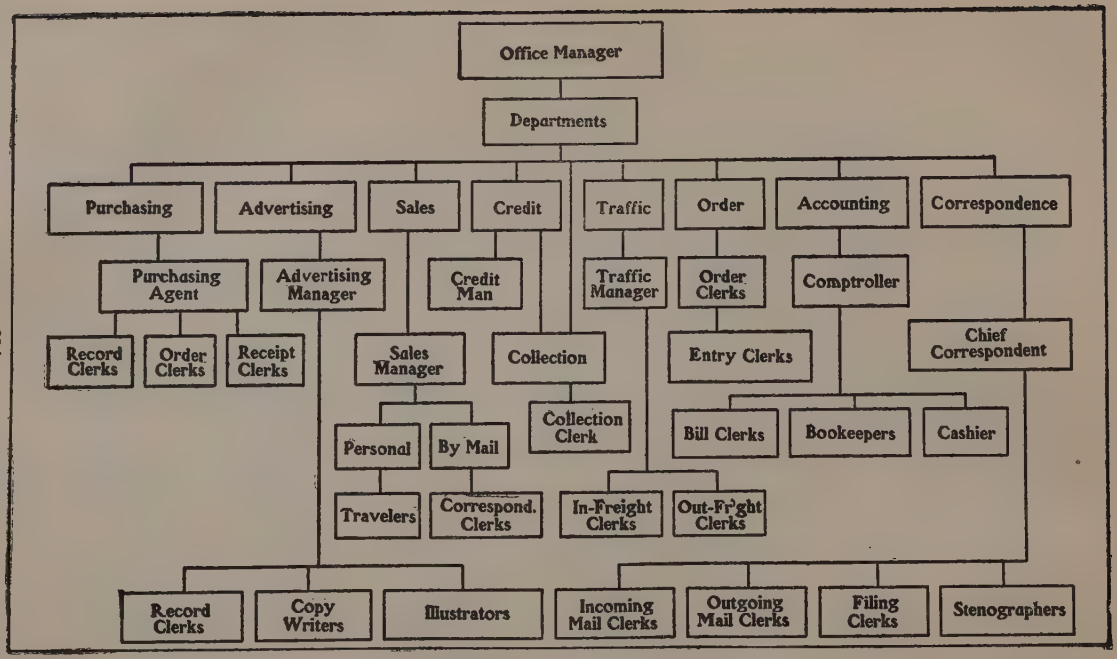
office manager. In smaller concerns, on the other hand, the work of conducting the office is readily performed by one of the office department heads in connection with his other duties. Thus the chief correspondence clerk, or the head bookkeeper, frequently performs the functions of the office manager.

It must not be understood from the above that the office manager is the superior of all the individuals in the office. The sales manager, the advertising manager, the purchasing agent and the credit man, while they have their desks in the office, and while their clerks are under the general supervision and disciplinary control of the office manager, are themselves of coordinate rank with him and not subject to his control, but only to that of the general executive. Although the advertising department is a division of the office, it does not follow that the office manager has any authority whatever in the actual conduct of the advertising campaigns. His jurisdiction extends merely to the discipline of the clerks of this as well as the other departments, and to the general supervision of their purely office work. The same is true of the other departments mentioned. With this understanding of the relation of the various divisions of the office to the officer manager, it will now be possible to discuss these various divisions, their functions, organization, and methods.

2. Purchasing Department

This department has charge of all purchasing. In a manufacturing concern, it has charge of the purchases of all materials used by the manufacturing branch of the business; in a trading concern of all the goods in which the concern deals. It does not, usually, make the purchases of the supplies used in the office itself, such as office supplies or stationery; nor does it arrange for the purchase of advertising literature.

Duties.—The duties of the purchasing department may be outlined as follows:



SYSTEM FOR AN OFFICE

(*a*) *Keeping Buying data,* consisting of:
1. Index and files of catalogues and dealers.
2. Special quotations.
3. Records of Past Purchases.

(*b*) *Ordering,* in which the successive steps are:
1. Receiving requisitions.
2. Sending out purchase orders.
3. Sending copy of order to receiving clerk, or comptroller.
4. Filing follow-up copy in tickler, etc.

(*c*) *Receiving,* in which it is necessary to:
1. Check invoices against purchase orders.
2. Check goods received against orders and invoices.
3. Enter data on record of past purchases.

Organization.—The head of this department is commonly called the purchasing agent. In some larger concerns, the purchasing is divided among several purchasing agents, each having one or more specialties. This is especially true of department stores. The purchasing agent, in a manufacturing concern, usually in cooperation with the superintendent, decides upon what is to be bought; draws up contracts and orders for its purchase; and passes upon the goods and invoices when received.

The actual ordering of the goods had best be done by the purchasing agent himself. In many concerns, however, the duties of the purchasing agent require him to do considerable traveling. It is well, therefore, to have an assistant purchasing agent, capable of taking his chief's place in the latter's absence. This assistant should do as much as possible of the clerical work. If an additional clerk is available, he should be entrusted solely with the first function, that of keeping the buying data. With a clerk to keep the buying data, the purchasing agent himself to write the orders, and a capable assistant to follow up and check the orders, the organization of the purchasing department is perfect.

Records.—Perhaps in no department is there greater need of complete and accurate records than in the buying

department. The mechanical side of buying, as may be seen from the foregoing outline, is of such great importance that unless it is properly taken care of, the buyer will have no time to attend to the broader phases of purchasing.

The records kept by the purchasing department must show the buyer first, when and what to buy; second, where to buy, and third, whether the goods bought have been properly received and invoiced.

The system whereby the purchasing agent is informed as to needed supplies differs greatly in various businesses. In any business, however, the check on staple supplies should be maintained by a perpetual inventory, kept by the stock clerk. A so-called "low stock limit" should be set on each article or kind of material, and as soon as the inventory shows that limit to have been reached, the purchasing agent must be informed by the stock clerk. When an order is received which demands the purchase of a special line of supplies or materials, a requisition is made by the head of the department by which such order is to be filled. On this requisition should be given the number or other distinguishing mark of the order for which the supplies are to be purchased.

When the purchasing agent has decided to purchase, the question arises as to where he may purchase cheapest. Of course, a great deal of buying, as for example, in almost all lines of the clothing business, is seasonal only; and, in such lines of business, practically all the buying is done in a very limited time, and by either the buyer or the seller traveling to the place of business of the other. In this case the price quotations are usually the result of haggling between the buyer and the seller. In many lines of business, however, price quotations are fairly constant and buying is done by mail on the basis of such quotations. Here complete and available information as to prices and qualities are absolutely essential.

Catalogues and Price-Lists.—The bulk of such information is obtained in the catalogues and price lists issued by the various manufacturers and dealers. The method

of filing these catalogues depends largely upon their number and size. Small booklets, especially those which will not stand readily on edge and which have too narrow a back to bear a number or other distinguishing mark, are best kept in a vertical file. For catalogues of larger size, a bookcase either open or with glass door, and preferably sectional, should be used. In either case, the best method of filing is the alphabetical one, under the name of the publisher. Where this is inconvenient, as it frequently is, on account of the lack of uniformity in the size and in the inscription, or on account of the general omission of the title from the back of the catalogue, it will be necessary to number each catalogue on its back, at a uniform height and to provide an alphabetical card index of the publishers, referring to these numbers. These are quickly remembered if in frequent use.

It is necessary to know not only where each catalogue is, but also what it contains. For this purpose a card index of subjects should be provided. Of course, most catalogues contain an index, but this is not the sort of index desired by the purchasing agent. A catalogue may list innumerable items with which the purchasing agent has no concern whatever, and yet list a dozen articles that may be of the highest service to him. It is for these dozen articles that the subject index is made. A separate card is used for each article or kind of material listed. On the card is provided space for the name and address of each manufacturer or dealer supplying the article, together with the page of his catalogue on which the quotation is found, and if the numerical system of catalogue filing is used, the number of the catalogue and the section of the bookcase in which it is to be found. If found more convenient, where the numerical file is used, the name cards can be kept in the same file as the subject cards.

Whenever a circular, price list or catalogue is received, it should be looked through, and if it contains anything that may possibly be of use at a future date, even though it is of no immediate service whatever, such information should be indexed as described.

Special Quotations.—In addition to the published price lists, every purchasing agent receives, either through drummers or through personal correspondence, special quotations on particular classes of goods. A record of all such quotations should be kept, even though not immediately serviceable. Unless the number of such special quotations is very small it is not wise to keep them merely by preserving the original letters in which they were offered. Owing to the fact that one letter frequently contains quotations on a number of articles such letters are difficult to file properly. It is therefore best to enter all special quotations as they come in, on a form-card. A separate card is made for each article, or if desired, for each size of each article. Each quotation is then entered on one line, suitable columns being provided for the name of the concern quoting (and if offered through a representative, his name or initials), the date of the quotation, full particulars as to description of article, prices and terms, and, if desired, orders given.

If desired, instead of a separate card being provided for each size of each article, spaces may be provided on the same card for all the various sizes.

As a general rule, it will be well to have these special quotation cards of the same size as the catalogue index cards and to keep them in the same file.

Orders Placed.—Both for the purpose of aiding the buyer in placing orders, and for the sake of record, all orders placed should be carefully recorded and filed under the name of the article ordered. This record should contain, besides full data as to the quantity, price, terms and other such items of the order, a note as to the quality of the goods received, and the promptness of their delivery. If the goods were purchased for use in a particular order, that fact should also be noted. These cards may also be conveniently kept in the same file as the catalogue index and special quotation cards.

Purchase Orders.—The blank used for purchase orders should contain, in addition to provision for the quantity,

space also for the description and price of the goods ordered, and the address and route of delivery, the number of the requisition, if any, upon which the order is made and the number of the order itself. It should also contain an emphatic request that this order number appear on the invoice.

At least two copies should be made of each purchase order—one for the use of the office, the "follow-up" copy, and one for the receiving clerk. The follow-up copy is first filed in a tickler or date file back of the date when acknowledgment should be received. If acknowledgment is satisfactorily received, the order is filed under the date when invoice should be received; later, it is similarly filed under date of promised delivery. When delivery has been made, the order is permanently filed as a voucher.

The receiving clerk's copy is used by him to check against the goods received. If it is not desired to have the receiving clerk know the price of the goods purchased, a narrow carbon can be used in making his copy. Some prefer also to omit the quantities ordered from the receiving clerk's copy, on the theory that he will be likely to count the goods more accurately if he does not know the amount ordered. This may also be accomplished by the use of narrow carbon, though some concerns go even further and do not furnish the receiving clerk with any advance notice of goods ordered and require him to make out an original report daily of goods received in his department.

If the size and complexity of the organization demand it, additional manifold copies of the order may be made for the treasurer's office in order that it may provide funds to pay the bill when it falls due, and for the factory or department for which the order was placed, usually, merely as a notification of the placing of the order, in which case the prices may be omitted. It is well to file the receiving clerk's copy with the original requisition, the requisitions being filed numerically in department groups.

Invoices should be checked up by the purchasing de-

partment as to quantities and prices and then sent to the auditor or comptroller.

For further discussion of this subject the reader is referred to the chapter on *Purchasing and Stores* (volume two).

3. Advertising Department

The position of the advertising department in the office organization varies greatly in various concerns. Sometimes the advertising manager is an independent executive, coordinate in rank with the sales manager; sometimes, again, he is semi-independent, having full control over the technical and detail matters of the advertising, but subject to the authority of the sales manager in the planning of advertising campaigns and the allotment of the appropriation. In still other concerns, and even in some very large ones, the sales manager takes direct charge of the advertising department, leaving only the clerical work to assistants.

Relation to the Office.—The question as to which of these three methods is the best is a difficult one, that can be decided in any individual case only by a person thoroughly conversant with the conditions there obtaining. A few considerations of a general nature may, however, be pointed out. While it is not entirely true, as has sometimes been stated, that "advertising is merely printed salesmanship," it certainly is true that the two are a great deal like each other in aims, methods, and results. It therefore follows that, in any case, the advertising and sales departments are very much dependent upon each other and that they must work in perfect harmony.

In many lines of business, especially in staple products where the object of advertising is rather to keep the name before the public than to result in a direct sale, this cooperation and harmony will be amply secured even though the two departments are independent; and this is then the better method. If, however, we take the case of a new product just being launched on a large market

the conditions are exceptional. Here the advertising and sales campaigns are really two parts of the same campaign—a campaign to "push" the article, in a short space of time, over a wide territory, for quick results. In this case the subordination of the advertising to the general sales manager is to be recommended.

The combination of all the functions of the sales and advertising managers in one man is open to the objection that, in the main, advertising demands creative ability, while sales management requires executive ability. Occasionally, however, a man is found who combines both. Only such a man may safely be placed in full charge of both advertising and sales.

Whether run as a coordinate or subordinate department, however, the functions, organization and methods of the advertising department will be the same; and these will now be briefly discussed.

Functions.—The functions of the advertising department are, first, to prepare copy for advertising; second, to order its insertion, or arrange for its publication; third, to check up the insertions and bills, and fourth, to check the returns from each advertisement.

The organization of the advertising department follows the same lines. In the average advertising department there will be, in addition to the advertising manager, a copy writer, an order clerk, a checking clerk, and, if the advertisements are of such nature as to permit it, a results-checking clerk. The last named should also take charge of the information and clipping files.

Records.—The first class of records to be kept in the advertising department are those which are of service in preparing copy. These consist of, first, all kinds of advertising information, made up mainly of newspaper and periodical clippings; second, all copy previously used, and third, all cuts and designs previously used.

Information.—In certain lines of advertising, as, for instance, railroad advertising, it is vitally necessary

to secure all newspaper and magazine items, of any character, relating to the concern or its competitors. If such items are numerous and likely to be scattered through a number of papers, the most economical and only efficient method of collecting them is to engage the services of a clipping bureau, which, for a fixed charge, usually five dollars monthly, and a slight additional charge for each clipping obtained, will guarantee to obtain every notice appearing in any one of several hundred newspapers and periodicals.

When these clippings begin to accumulate, it becomes quite a problem to keep them so that they may be readily accessible. The old method, that of pasting down in a scrap-book, is far too inelastic for modern requirements. The variable size of clippings makes it difficult to keep them in vertical file folders, as they frequently fall out in the handling. For this reason envelopes are most frequently used. Unless the clippings are of large size, the most satisfactory size of envelope will be found to be about 7 by 9 inches. Where the clippings are not likely to be over a certain size, a still better method is to paste them on uniform cards of slight thickness. A uniform margin is left at the top of the card for recording the source and date of the clipping and for indexing.

The most satisfactory method of indexing is by subject. If envelopes are used, all the clippings relating to a certain subject are placed in one envelope, and the clippings listed on the outside. Where cards are used a more detailed classification of each clipping is possible.

Where the material to be preserved is much more bulky than a mere clipping, as catalogues, booklets, and other heavy printed matter, the method of filing is the same as that described for catalogue filing in the section on the *Purchasing Department.*

Proofs.—A complete file of proofs of all copy used is absolutely necessary in the advertising department. Every publisher or printer readily supplies proofs on request. Not less than three proofs should be kept on file. When a considerable quantity of advertising is done,

it is best to have printed on each piece of copy, and on every circular or other printed matter, an identifying mark of some kind, preferably a number. These numbers should be registered consecutively, either on cards or in a book, and the title or subject of the copy, circular or booklet, entered opposite. The printed matter itself should be filed by title or subject, in the same manner as that employed in the filing of clippings. In this way, any piece of copy may readily be identified and located, if either its subject or its number is known.

Every time a piece of advertising copy is reset with any change, however slight, in size or make-up, it should be given a new number.

It is a good plan to reserve different series of numbers for different kinds of advertising copy. Thus, newspaper copy may be numbered 1 to 1,000, magazine copy 1,001 to 2,000, and circulars, booklets, etc., 2,001 to 3,000.

Designs and Cuts.—The proper preservation and later use of designs and of the cuts made from them is of the highest importance. An old design may be usable at any time—if not just as it stands, then with but a slight and inexpensive change. Engravings, too, are well worth keeping. An advertiser who runs a daily advertisement, with a new cut each day, will have at the end of a year over three hundred cuts. Any one of these may be usable again at a later date, either in a circular, catalogue, or newspaper; yet in spite of the large amount of money invested in designs and cuts, their proper preservation seldom receives even passing attention in an advertising office. With but little labor and trouble, a system of complete and accurate records can be maintained which will make it possible to keep this valuable property always accessible and usable.

Such a system demands the preservation of all original designs, of all cuts made from them, and of a proof of each cut, and the maintenance of a card index to the whole.

The best method of preserving designs is to file them in a large-sized wooden box (roomy enough to hold the

largest design) on the principle of the vertical file. It will usually be necessary to have a carpenter construct this box, as stock sizes of the files are too small. Where the designs bear a label, or readily admit of having a name applied to them, it is best to file them alphabetically. Otherwise they should be filed numerically, and the number of the design placed in the corner of each proof of a cut made from it.

For the preservation of cuts, there are on the market various makes of cut cabinets, made up of shallow drawers, just a little deeper than type-high. The cuts are numbered consecutively, as they are made. When an engraving is made in a new size it will take a new number. Electrotypes made from an engraving should be given the same number and each drawer labeled with the lowest and highest numbers that it contains.

The number on the cut should also be placed on the back of the design. Proofs of engravings are best kept in a scrap-book. Each should be numbered with the number of the engraving from which it is made (and where the designs are filed numerically as above described, with the number of the design). The proof should also have written upon it its subject, the date of ordering electrotypes, and the number ordered. To preserve these data in uniform style, a small rubber stamp containing the proper blanks may be used.

The scrap-book in which the proofs are pasted should, in all cases, be loose-leaf. This makes it possible readily to get out of the way the proof sheets of designs which can not be further used.

To keep track of these designs, cuts and proofs, a card index is needed. On the front of the card are given full data as to the design and the making of the engravings, as follows: Subject (where the designs are filed numerically, the card will bear the design number instead of the subject), kind (whether line-drawing, photograph or wash-drawing), name of the artist, size of the design, and date made; then with reference to each engraving made, the date, size, engraver, kind (whether half-tone or zinc), number (the number placed on the cut) and

the number of electrotypes made. On the back of the card is recorded the use made of the design. Spaces are provided for the date, description of use made, and number of each engraving.

Just as important, if not more important, than keeping a record of the cuts and drawings in one's possession, is keeping track of those sent out; not only should a receipt be obtained for such material, but a tracer should be filled out and filed, giving the description of the cut or drawing, the date it was sent out, and the date when it should be returned. The tracer should be filed in a tickler, preferably in one reserved solely for that purpose.

With these records in hand for the proper preparation of copy, we next take up the systems to be used in placing and in checking returns from various kinds of advertisements.

Rate Cards.—The first necessity in deciding upon an advertising medium is, of course, to know the rates charged by the various publications. Every publication issues a "rate card" containing this information. Unfortunately these rate cards are by no means uniform in size, nor is their presentation of the figures such as to admit of a ready comparison of their respective values. It is therefore necessary for any one wishing to have a range of a score or more mediums to write out his own uniform rate card. Such a card should contain the page and line rates of the publication, the discounts offered, the size of its page and column, and its circulation and territory.

In placing orders for advertising it is well, provided the amount of advertising done is sufficient to warrant it, to use a printed order blank. Every detail of the order should appear upon this blank.

It is necessary, especially in newspaper advertising, to keep a close check upon the advertisements appearing, to see whether they fulfil all the conditions of the order. In newspaper advertisements, the best form for such a check is a sheet filed in the tickler under the day when the paper will be received.

Keying Systems.—Of equal importance with rate cards in deciding upon the particular periodical in which an advertisement shall be placed, and of the greatest importance in determining which is the better of two advertisements to place in any periodical, is a record of the returns received from each advertisement in each periodical; without such a record, scientific use of the advertising appropriation is impossible and much outlay is misdirected.

The first step in devising a system of checking returns from advertisements is to "key" each advertisement, so that it will be possible to tell from each inquiry or order received, in which medium the advertisement was seen, and in which issue of that medium.

Innumerable devices have been resorted to for this purpose. Almost all of them are variations of the same idea to insert the distinguishing mark in the address. The most common device of this sort is to use a department number or letter with each periodical. This method has the disadvantage that many people disregard the department altogether. A similar private key, which is less likely to be neglected by inquirers, is to change the street number, room number or post-office box number. If this plan is used, however, the post-office authorities should be notified.

Another very satisfactory method of keying is the inquiry coupon, on which the name of the publication, and date of publication are printed—either in the text of the coupon in full or in a corner in symbols. When the object of the inquiry is to ask for literature, the advertisement may be keyed by stating, for example, "write for booklet 6."

Recording Results.—In recording the results obtained from each advertisement, a card or loose leaf should be used for each insertion. In most cases it will be sufficient merely to take the number of inquiries as they come in. If a more accurate record of inquiries is desired, the card may be ruled horizontally for the 31 days of the month and vertically for the 12 months, thus providing a square

for each day of the year in which the tally for that day may be written.

If much advertising is done, these daily tally sheets will not admit of ready comparison, and condensed monthly record sheets should therefore be made out.

Street-car and Outdoor Advertising.—The records required for this class of advertising are of much simpler nature than those required for periodical advertising. It consists merely of a record of rates and of contracts made. It is of course, in all but a few cases, impossible to key such advertisements, or to check the returns from them in any way whatever.

Retail Advertising.—Retail advertising presents special problems in the matter of checking returns. It is impossible, if the same advertisement has been inserted in several papers, to determine what portion of the results is attributable to each. It is possible, however, to ascertain what results have been obtained from all the advertising placed. The simplest means of accomplishing this is to require each salesperson to take note of the various articles advertised for the day. One good method of insuring this is to hang a proof of the day's advertisement in each department in the morning, and the salesman then places a distinguishing mark on the sales slip of all such articles sold. The drawing up of a comparative record of sales of advertised and non-advertised articles, and of the same article on the days when it was advertised, and days when it was not, is a simple matter. Such record should also provide for data as to any special conditions (chief of which is the weather) which affect the sales; and such special conditions must be carefully considered when the values of the respective advertisements are compared.

The general subject of *Advertising* is dealt with under its own head. (See volume two.)

4. Sales Department

In the discussion of the relation between the office manager and the head of the various departments of the office, it was stated that the sales manager, among others, is not subject to the authority of the office manager, but is an executive of coordinate rank with him. Not only is this true, but a great part of the sales manager's work, and the entire work of his most important subordinates, the traveling salesmen, lies outside the office. For this reason the sales department is often not considered to be a part of the office, even though all its clerical force and the sales manager himself may do their work there. Many firms organize a separate sales division, having distinct quarters, and its own office organization, such as correspondence department, etc.

The relative size of the sales department is the prime consideration in deciding between these two forms of organization. In general, a concern handling a patented article which is sold to small dealers, thus requiring persistent "pushing" and a large force of salesmen, will do better to organize a separate sales division. Even though organized as a separate division, however, its internal organization will be the same.

Two Kinds of Selling.—Sales departments are organized in two ways, following the methods of selling: (1) those that deal personally with customers, either in a store or by agents, and (2) those that sell through correspondence. Each of these will be taken up separately. Frequently of course, a sales department employs both methods. In this case the organization and routine of the department will be a combination of both methods. (See *Selling*, volume two.)

In either kind of sales department, the personal salesmanship or the mail-order, the general function of the sales manager will be the same. He will lay out the general lines of the sales campaign; will, in conjunction with the general manager or the proper executive authority,

decide upon prices and price policy; and will be responsible for the amount and character of the sales.

Personal Salesmanship.—In addition to these general functions, the sales manager will, in a personal salesmanship department, have important duties in connection with the sales force. He will employ the salesmen, will fix their salaries and commissions, and will control their expense accounts. In addition, he must decide how to route his salesmen, first deciding how often the territory should be covered, the extent of the territory he will attempt to cover, and the number of men needed. He must then lay out the territory of each man and the most economical route by which such territory may be covered. Lastly he must maintain a close watch over the progress of his campaign in the various sections of the territory covered.

Route Records.—For the routing of salesmen nc highly specialized records are necessary. Once a salesman has started on his route, however, it is necessary to keep close track of his whereabouts, so as to be able to reach him, if necessary, in the shortest possible time. With a small sales force making only important points this is of course a simple matter. For the tracing of a larger force, an excellent method known as the map-and-tack system, has been devised. Each salesman is assigned a certain color. When a route is given him, a tack, bearing a head covered with cloth of the color assigned, is placed in the spot representing each town at which he is to stop. As he progresses from town to town, a piece of cord is successively unwound and strung to the town at which he is stopping on that day. The end of the cord always represents his present location. If for any reason it is desired that he should make a town that was not originally assigned him, a cord of special color is strung from that point to the nearest routed point, and a tag placed on the map, from some town which he will reach several days before, as a reminder to notify him to call at the unrouted town.

The mere outline of this system has been here described. By use of variously colored cords and tacks its use can be greatly extended and intensified.

Travelers' Records.—Expense accounts are best kept on a form provided for the purpose. A very convenient style for such form is a 3 by 5-inch card, ruled for a week's expenses. Each day is assigned several horizontal lines (one line for each town visited), and the amounts are entered in vertical columns, classified under such heads as railroad fare, hotel, etc. Sales records form the most important class of records kept in the sales department. Without them the sales manager is working in the dark. He should have records to show him, almost at a glance, how much has been sold in any given day, or in any given week, month or year; how much of each class of goods was sold; how much each salesman is selling; and how much each customer is buying.

The forms for these records are easily devised, though necessarily varying greatly in various kinds of business. The daily sales report is, when used, the basis of the other reports covering a longer period of time. In general, the daily report will provide one horizontal line for each department or each class of goods, and the amount of the sales will be entered in one or more vertical columns, according as it is desired to obtain merely the gross total of sales for the day in each department, or the various classes of such sales, such as sales to new and old customers, sales for given territorial divisions, etc.

In concerns which sell goods in large bills, weekly sales reports, similarly drawn up, will be found quite sufficient to give all the data desired.

Monthly and yearly summaries of these sales reports are easily made. It will generally be found best to keep such summaries in a loose-leaf book.

Salesmen's records are also very easily devised. These may show merely the total of sales, entered periodically, or they may also include data as to the salesman's expenses.

More important perhaps than either of these sales rec-

ords is the customer's sales record. This should usually not be a daily or weekly or indeed a periodical record. It should merely provide for entry of sales, with date, as made. Like the salesman's record, it may be simple, merely showing totals, or it may readily be arranged to show classes of goods purchased, and by what salesman sold.

The customer's record is best kept on a card and filed in a card cabinet. If the cards are not over a few hundred in number, they are best indexed alphabetically. A large list should be indexed geographically. In a geographical index, the cards are grouped under States, and, if desired, cities, and the cards under each State or city arranged alphabetically.

An advantage of the geographical index is that it makes it possible for a sales manager or salesman to find out the condition of the trade in any given territory with great ease.

The usefulness of the customer's list can be greatly enhanced by combining with it a list of "prospects," preferably on cards of another color, containing data of value to the salesman attempting to secure the "prospect" as a customer and also a record of all attempts already made toward that end.

Mail-Order Sales.—In a mail-order sales department the functions of the sales manager, in addition to the general functions indicated above, are mainly to prepare, or supervise the preparation of form letters, to determine when and to whom such form letters shall be sent, and to conduct or supervise all personal correspondence to customers or "prospects."

The most common and effective method of conducting a mail-order campaign intended to secure direct orders is the form letter. A proper system for the distribution of such letters is therefore a prime essential of the mail-order department.

Follow-ups.—Form letters are almost invariably sent out in series; that is, if one letter brings no reply, a sec-

ond is sent, and if necessary, a third and fourth. To make it certain that each letter shall be sent out at the right time and to the right parties, a so-called "follow-up" system is used. Follow-up systems are many and varied, depending upon the complexity of the letter campaign to be handled. (See *Form Letters and Follow-up Systems* in volume two.)

The best way to keep a list of customers, or of "prospects," is by a card index. Such a list is the basis of the follow-up system. On each card used in follow-up should be entered, on spaces provided for it, a record of all the correspondence had with the party. The card should also have printed across the top the numbers 1 to 31. In addition there should be on hand movable metal tags which can be attached to the top of the card so as to project slightly. Suppose now that a form letter has been sent to a "prospect" on the first of the month, and it is desired, in case he does not reply in two weeks, to send him a follow-up letter. The metal tag is attached to his card over the number 15. Then when the 15th arrives, his card and all other cards having tags in the same row will be removed and their correspondence attended to as indicated by the record of previous correspondence contained on the cards as above described. If, however, a reply is received from the party before the 15th, his card is located (the alphabetical arrangement makes this easy) and the tag removed. There are several other follow-up systems, descriptions of which may be obtained from concerns dealing in them, but the one here described, is, on the whole, the most satisfactory. By the use of a second series of tags, differently colored, it can also be adapted to indicate follow-up dates on a number of months.

In sending out mail-order letters or literature, it is frequently desired to have the customers' and "prospects'" lists classified, so that it may be possible readily to select all the cards belonging to a certain class. The best method of providing for this in the lists above described is to employ cards with tabs, each tab being numbered and being differently located at the top of the card

in accordance with that number. Each class which it is desired to distinguish is given a different number, and the names of all parties following within that class are written on cards with the proper number. When these cards are alphabetically filed in the general file, all cards of a given class may be distinguished by their tabs being located in the same position on the top of the card.

Form letters may be "keyed" in several ways. Chief among these are the following: offering a particular sample to the recipient; or requesting the reader to address his reply to a particular department; or writing the letter in the first person singular, so that the reader will naturally address his reply to the individual signing.

The keeping of sales records in the mail-order department is essentially of the same character as in the personal salesmanship department, the sales record of each form letter or of each correspondent taking the place of the sales record of each salesman.

5. Credit Department

No division of any business, large or small, is of greater importance than the credit department. Economy in production, large sales, capable management—all these will avail nothing if credit is extended to undeserving parties, and bad debts are allowed to eat up profits.

For this reason the head of the credit department, the credit man, now occupies a position of high importance in any concern. Though he and his clerks do their work in the office, the credit man is not subject to the direction of the office manager. He is of coordinate rank with that officer, and usually with the sales manager. Sometimes, however, the credit department forms a subordinate division of the sales department. As a general rule it is best to have the credit man independent of any authority, except that of the general executive.

Functions.—The credit department determines how much credit shall be extended to each customer at any particular time. To enable it to make such determina-

tion, it collects and records information about the financial status, personal reliability and credit standing of the customers. When necessary it undertakes special investigations toward the same end. Every order from a new customer must receive its approval, and every order from an old customer should receive its O. K.

Records.—The primary source of credit information in most concerns is that supplied by the mercantile agencies, in the shape of rating-books and special reports. Large concerns supplement this with information gathered by their own salesmen, agents, or correspondents, and with statements made by the customer himself.

If desired, a special form can be prepared on which correspondents are to send their reports, but the amount of the detail which a correspondent can secure does not usually make such a form essential. For the customer's statement, however, in which a great deal of detail is possible, a form had best be prepared. Standard examples of such form are obtainable in the forms issued by the National Association of Credit Men and by various bankers' associations.

In general, such a statement should be drawn up in two columns, one for assets and the other for liabilities, under assets should be given cash, stocks, real estate, etc., notes and accounts due; under liabilities, money due for merchandise and for loans, and whether on notes, mortgages, etc. A specimen statement will be found in the article on *Credits,* in volume three.

The system of filing credit information depends entirely upon the size of the concern and the amount of data desired. In a small business, where the only source of such information is agency rating-books and reports, the filing presents no problem, and the report can be kept with the general correspondence. Where it is the practise to keep more detailed information, however, all such information should be filed separately. The vertical file accommodating a folder of about 7 by 9 inches then presents the most satisfactory method of filing. All correspondence, clippings, statements and reports should be

kept in one folder in chronological order and the folders filed alphabetically or geographically.

It is usually very desirable to have, in addition to the original information contained in the folder, a condensed transcript of the same, and also of the agency ratings.

If desired, the folder itself may be arranged to contain this transcript. A special form of folder, with a flap folding over the front, is best for this purpose; the back of the folder may also be used for record purposes.

More frequently, however, such transcripts are made on special cards. The natural arrangement of such a card is to provide a horizontal line for each date and vertical columns for Dun and Bradstreet rating, both capital and credit.

In a business which delivers its orders within a short time after their receipt, the credit department should keep credit information regarding not only customers, but "prospects" also.

Treatment of a New Order.—When an order from a new customer is received, the credit man consults whatever information he already has. If this is not sufficient to enable him to form a judgment, tentative acceptance is sent to the customer, and further information is sought for, usually from an agency. The order is filed in the tickler under the date when the information is expected.

When the credit man has decided to grant credit, he fixes a credit limit for the customer. This limit is entered on the card or folder transcript above described, and should also be entered in a conspicuous position on the ledger sheet of the customer, preferably in a code known only in the office.

The Limit of Credit.—Whenever the customer reaches or approaches his credit limit the accounting department must notify the credit man. In concerns where the loose-leaf or card ledger is employed, it can be made a valuable aid to the credit man, as when he is considering a credit risk, he can, without at all inconveniencing the accounting department, be furnished with the complete account

of the customer under consideration. When the bound ledger is used, this is not generally possible without serious annoyance to the accounting department. The credit department should, at the beginning of each day, be supplied by the accounting department with a list of the payments received on the preceding day. To obviate the necessity of such a list, however, and also to keep the credit department in immediate touch with all branches and places of the business which may affect its work, it is the practise in some concerns to have all the mail, including orders and payments, opened first in the credit department, and then, after that department has made all the necessary notes and records therefrom, distributed to the various other departments of the business. The accounting department, though it renders valuable and indispensable aid to the credit department, has no authority whatever over credits. A customer may have run fifty per cent over the credit limit assigned him by the credit department, but if the credit department, after proper notification by the accounting department, continues to O. K. that customer's orders, the accounting department must enter and bill them.

For a more complete discussion of this subject see *Credits,* in volume three.

6. Collection Department

The collection department of any concern can be made one of its most useful and valuable ones, for a good collection department not only collects those accounts which are overdue, but by efficient work accustoms all customers to pay promptly, thus saving endless trouble, time and money.

The collection department is frequently organized as part of the credit department. The reason of this is that the policy to be pursued by the collection department in the case of each overdue account depends very largely on the character of the customer and his general credit standing—questions which are best answered by the credit department.

The actual work of the collection department is clearly distinguishable, however, from that of the credit department. It has therefore been considered advisable to treat them separately in this discussion.

How Conducted.—The average collection department will require the services of a collection clerk, to keep track of the dates on which bills fall due, and a correspondent, to handle the actual communications with the customer. In small concerns, the duties of a collection clerk are usually performed by the bookkeeper, while those of the correspondent are performed by the credit man. The growing practise in modern business is to regard each invoice as a separate account, due at the end of the time specified—thirty, sixty or ninety days. It will be assumed in the following discussion that each invoice is so regarded.

The primary requisite of the collection office is a method by which accounts will be automatically brought to attention. Three different methods of doing this will be briefly described. The first is adapted to the needs of a concern with a very extensive business and many customers; the second will be used to best advantage by a medium-sized house, while the last is suitable for a small concern where the bookkeeper attends to the collections.

Duplicate Invoice System.—The first method may be termed the duplicate invoice system. All invoices are made in duplicate. The duplicate is filed in the collection department in what is practically a tickler file. However, it has been found more convenient to install a case divided into sixty or ninety pigeon-holes (according to the longest time for which the house extends credit) and in two or three sections, the pigeon-holes in each section being numbered from one to thirty. Each section is used for alternate (or in the case of three sections, for the third) months. Each day the invoices which fall due on that day are removed and the pigeon-hole left empty for the invoices to be filed that day which fall

due two (or three) months later. To illustrate: on the 4th of June, the dates represented by the first six pigeonholes in a case of two sections are Aug. 1, Aug. 2, Aug. 3, Aug. 4, June 5, June 6, etc.

This method of filing is, as stated above, essentially a tickler. It is often found more convenient, however, to use transcript cards instead of the invoices themselves. A card is made out for each invoice, giving all details of its amount and terms and providing also for a record of subsequent correspondence and disposition of the invoice. The card may be filed in the tickler file under the date when the invoice falls due, or better still, it may be filed alphabetically and a tickler tab placed along the top of it, as described in the section on "Sales Department," in the discussion of the follow-up systems.

Tickler Tabs.—Where the bookkeeper himself attends to collections, and has but little time to write transcript cards, the tickler tabs may be fastened directly to the edge of the ledger sheet, on which, as on the transcript cards with which the tickler tab is used, are printed numbers from 1 to 31.

The tickler tab system may of course be elaborated through the use of differently colored tabs to represent the different stages of each account payable. For example, a white tab on number 20 may indicate that the account is due on that date; a black tab may indicate that the account is past due, that a draft has been drawn against it and that if the draft is dishonored, further steps are to be taken on that day; while a red tab may indicate that the account is long overdue and has proved uncollectible by the ordinary methods of collection.

Whether the duplicate invoice, tickler card, or ledger tab is used to bring due accounts to attention promptly, the succeeding routine is the same. When a bill comes up as due, the accounting department informs the collection department whether or not it has been paid. For those unpaid it prepares statements. These the collection department sends out, together with the suitable letters.

The bill, transcript, or tickler tab is then so filed or placed as to bring the account up for attention again at the earliest date on which remittance may be expected.

If, instead of treating each invoice as a separate account, a concern collects by monthly statements, the tickler card or tab may be used in the same manner as above described, excepting that the card must contain a transcript of the whole account.

Sight Drafts.—It is the practise of many concerns, when a short period (ranging usually from ten to thirty days) has elapsed after notification to the debtor that his account is due without payment being remitted, to draw a draft upon him. The nature of this method of collection will be found treated in the chapter on "Negotiable Instruments." In addition to the draft itself, which is sent either to the drawer's own bank or to the drawee's, letters of advice are sent to both the drawee and the bank. A duplicate of the draft is preserved for record purposes. In addition, a record of the draft is made on the duplicate invoice, or on the collection card. The duplicate of the draft is filed in a filing case reserved for such duplicates, under the name of the bank of deposit. If desired, these duplicates can be furnished with tickler tabs as described in the discussion of the follow-up systems.

If many drafts are used by a concern, it will be found profitable to have forms printed for the draft, duplicate, and letters of advice to drawer and drawee, in such a fashion that they may all be made in quadruplicate at one writing.

(See *Collections,* in volume three.)

7. Traffic Department

The function of the traffic department is, in general terms, to secure the best freight service for the least money. To perform this function, the freight department must know what routes and methods of transportation are cheapest and most efficient, and must be able to

check the movement of every piece of freight, whether incoming or outgoing.

Duties and Functions.—The specific duties of the freight department are to decide upon the routing and packing of freight (packing because the classification, and hence the rate of freight, frequently depends upon the manner in which it is packed); to see that deliveries are made promptly; to audit freight bills; and to enter and push claims against transportation companies for overcharge or damages.

The functions here specified will determine the organization of the traffic department; one man, usually the traffic manager himself, must be thoroughly familiar with rates, classifications, and service character of all available railroads or other transportation media with respect to both his own and his competitors' shipping points; the checking of deliveries will be entrusted to a delivery clerk, or if the volume of his business demands it, to two clerks, one attending to the in-freight and the other to the out-freight; while the handling of claims will fall to still another clerk. The auditing of freight bills should be done by the man in charge of the routing. He knows their history.

The information required regarding rates, classification, etc., are usually contained in a few books, or tariff sheets, the filing of which presents, therefore, no problem.

The methods employed in the checking of deliveries can best be described under two separate heads: ***in-freight*** and *out-freight*.

In-freight Methods.—As soon as the purchasing department has given an order, it sends notice of the fact to the traffic department, stating the date on which delivery is promised, and whether or not the order is to be shipped freight prepaid. The traffic department then decides upon its routing and notifies the receiver of it. The purchasing department's notification is then filed in a tickler under date of promised delivery. If the shipment does not arrive by that date, the traffic department

notifies the transportation company, generally using a form "overdue" blank.

When the freight arrives, the traffic department learns of it through the receipt of a so-called "freight notice" from the railroad, which states that the goods have arrived. An order blank requesting the transportation company to deliver the freight described to the bearer is made out and the freight notice itself filed. This method of filing the original freight notice and giving the teamster merely a duplicate is a noteworthy improvement over the old method of giving the teamster the original freight notice, which he frequently lost, soiled or mutilated.

The teamster, when he gets the goods, is given a freight bill by the railroad, which is a duplicate of the freight notice. This he turns over to the receiving clerk, or to the receiving clerks of the various departments for which the goods are intended. These check up the items received. The bill is then sent to the traffic department, which, after checking the amounts charged, and checking against the freight notice, and finding the bill correct, approves it and sends it to the accounting department for payment.

Out-freight Methods.—As was stated above, in outlining the work of the order department, a copy of each order is sent to the traffic department. Here the order is routed and briefly recorded.

The best method of checking out-freight shipments is to provide the teamster who delivers the shipment to the transportation company with three duplicate receipts known as "dray tickets," to be signed by the agent of the company. As stated above, these receipts can, if desired, be made by the order department in manifolding the order.

The make-up of the dray ticket is of great importance. It should contain, in addition to full data as to the place of shipment and the destination, an itemized account of all the articles shipped—so itemized that it will be impossible for the railroad to claim that its delivery includes

all the articles listed, if it does not. One of the three receipts goes to the railroad, one to the customer, and the other is kept in the files of the traffic department.

Claims.—If either an in-freight or an out-freight shipment for which the concern is paying the freight is lost, damaged, delivered short, or overcharged for, it is the duty of the freight department to enter a claim for damages with the railroad. This claim should be made with a duplicate of the original freight notice or dray ticket. The original itself should never be removed from the traffic department files.

A considerable economy in trucking expense will be effected if, as far as possible, a truck is not allowed either to leave or return empty. To facilitate this, it is best to have each department of the factory or warehouse notify the traffic department each morning what orders it can ship that day. By comparing these reports with the freight notices, the traffic department can frequently arrange that the same truck which goes to fetch purchased goods from the freight house can at the same time deliver out-freight to it. This arrangement is known as "backing freight."

This subject will be found discussed further under the head of *Shipments and Returns,* p. 735.

8. Order Department

When an order has been passed upon and O. K.'d by the credit department, it is passed on to the order department. Here it must be interpreted (that is to say, the terms and descriptions used by the customer must be translated into the stock numbers or names used by the concern) and copies of it made for all the departments requiring them. In addition to performing these functions, the order department must see to it that shipments are sent out on time.

Duties.—The duties of this department are mainly to provide records for the other departments of the busi-

ness for the expediting of customers' business. It requires no permanent records of its own.

The head of the department is sometimes called the manager, but most frequently he is known as the chief order clerk. He is sometimes a member of the accounting force. The chief order clerk is charged with the interpretation of orders. He is assisted, if necessary, by one or more entry clerks whose duty it is to enter and manifold the orders as interpreted by him.

Methods.—All orders should be numbered consecutively as received, and should be known by their numbers throughout the routine of filling and shipping them. It is also a good plan to print, on all copies of the order which go to the customer, a request that he quote the number of the order in referring to it in correspondence. This will expedite matters.

When the chief order clerk has interpreted the order (indicating his interpretation usually by key numbers), it is passed to the entry clerks, who may make seven or more copies as follows:

1. *Office Copy.*—Kept in the office as a permanent record of the order.

2. *Sales Department Copy.*—To be used by the sales department in making up its purchase records.

3. *Acknowledgment.*—Sent to the customer as an acknowledgment of the receipt of his order.

4. *Traffic Department Copy.*—Sent to the traffic department, to enable it to route and check shipment. If desired, however, the filling copy may be used for this purpose, and no separate copy made.

5. *Filling Copy.*—Sent to the factory or stores department to be used for filling the order. One copy of this will be sufficient only in cases where the entire order is filled by one department.

6. *Shipping Copy.*—Sent to the shipping department to be used as a check against the goods received from the factory or stores department.

7. *Invoice Copy.*—To be sent to the customer as an invoice.

Routine.—The routine through which some of these various copies go in the different departments to which they are distributed does not, in strictness, fall under the work of the order department, but it will nevertheless be best to trace it under one heading. Of the acknowledgment, sales, traffic and filling copies nothing further need be said. A few words may be needed as to the other copies.

The office copy is filed under the date when the shipping department has promised to ship. If a notification from the shipping department is not received by that date, the office copy is advanced in the tickler to the new date of promised shipment. When the shipping department copy is received, indicating that shipment has been made, the office copy is sent with the invoice copy to the accounting department. When the accounting department has made its entries and has sent out the invoice, the office copy is returned to the order department and filed under the name of the customer.

The shipping copy is held by the shipping clerk as a check against the goods received by him for shipment from the factory or stores department. When those departments fail to fill the order for shipment by the date promised, he notifies the order department. When he has received the full order for shipment, he ships and returns the copy to the order department, as notice that the shipment is made. If desired, the order department may later return this copy to him, to be kept by him as a record of shipments.

The invoice copy is sent out by the accounting department as soon as shipping notice is received from the order department. It often forms the basis of ledger entries.

Additional Copies of Orders.—The copies of an order here described will answer the essential needs of any business. Some concerns, however, owing to the particular conditions of their business, find it useful to make one or more of the following additional copies: advertising department copy, to be used by that department for

its classified sales records; charge sheet copy, to be used instead of the office copy or invoice by the accounting department in making its entries; an additional copy of the invoice to be used as the ledger record by the accounting department; a label to be sent to the shipping room to be pasted on the shipment as shipping instruction; a shipping receipt copy (or sometimes even two or three) to be signed as receipts by the transportation companies; and a copy for use in the monthly summary.

By the use of modern mechanical methods of manifolding and duplicating, it is possible to produce all these copies at one operation. Even those copies, such as the shipping label, which contain only a small part of the data appearing on the original copy, may be thus produced by the aid of narrow and short carbons.

In a concern handling only a few articles, which are practically always in stock, the invoice can be made by manifolding the office copy as described. Where the line handled is varied and complex, however, so that it may be necessary to send the order in several shipments, it is best not to make out the invoice by manifold, but merely to manifold the customer's name, address, etc., leaving the items to be filled in by the accounting department at the time of shipment. When the shipping department reports that one or two items have not been shipped because of the lack of stock, it is best to make out a "back order," that is, a new order sheet, with duplicates for the factory, and for the shipping department, to be used as a tickler in all three departments for those particular items.

9. Accounting Department

The mere statement that the function of the accounting department is to provide for records of all receipts and expenditures, and for determining the condition of the concern, is of itself sufficient to indicate its paramount importance in the business organization. It is the controlling medium of the concern, the one center through which every transaction and every operation of the business must pass, in one form or another. Upon the effi-

ciency of the accounting department will depend entirely the accurate determination of costs and profits—information which is to the business what the compass is to the mariner.

The head of the accounting department in a large concern is called the chief accountant or auditor. He is assisted by such bookkeepers and clerks as may be necessary. In a small organization, he himself keeps the so-called "general ledger," while his assistants each have charge of one or more of the subsidiary ledgers.

It is not the purpose of the present article to explain in detail the principles and practise of keeping accounts. We can, however, discuss a few fundamental phases of accounting as applied to the office itself, and outline a few of the more important forms which have been introduced into bookkeeping practise in recent years.

Orders for Purchases.—The stockkeeper, when certain classes of goods require replenishing, notifies the head of his department, who forthwith fills out an order blank, prepared in quadruplicate on numbered forms, detailing his requirements; the four copies are then sent to the buyer, who approves the blanks, sends one copy back to the department in need of the goods, one copy to the dealer in such supplies, one to the receiving clerk, and retains the last for his own voucher of goods ordered.

Receipt of Goods.—Incoming goods are received at only one place in the establishment, and that is at the receiving clerk's entrance. No goods should be accepted unless accompanied by an invoice. The goods are compared with the invoice, which is then checked against the order file as to quantity and quality, and if correct is sent on to the buyer. The goods are then delivered either to the department requiring them or to the storeroom; in either case the receiving clerk, who has entered the goods in a Goods Receivable Book, now demands the receipt and signs for them, thus relieving him of further responsibility.

To return to the invoice: The buyers' department having verified prices and extensions, the invoice is numbered and passed on for entry in the Purchase Register and Ledger. The total amount is entered in the Amount column and distributed to the proper departments. At the end of the month all columns are footed and the total of the Amount columns posted in the General Ledger to the credit of Accounts Payable, while the totals of the Departmental column are debited to their respective accounts in the General Ledger. As the invoices are paid, they are entered in the Accounts Payable column of the Cash Book, and from there posted to the Date Paid column of the Purchase Register. It is obvious that when all the monthly postings are entered in the General Ledger, the credit balance in the Accounts Payable controlling account contained therein must agree with the total of the unpaid items in the Purchase Register and Ledger.

Cash Accounts.—For the receipt and disbursement of cash a columnized book, designed to meet the requirements of the particular business, is most efficient. A form of a book in common use has a "Bank" column on the Receipts side, and "Check No." column on the Payments side. This obviates the necessity of using check stubs for the entry of daily deposits and checks drawn. Printed and numbered checks may be taken from a pad, and the entry made in the Cash Book before filling out the check. This method not only saves the time spent in duplicating details on the check stubs, but also furnishes the condition of the bank account on the Cash Book. Of course it is hardly necessary to state that receipts of all kinds should be daily deposited in bank.

As to the working of the Cash Book: On the Receipts side is entered in the Total Cash column the actual amount received, in the Discount column will appear the amount allowed; in the Accounts Receivable column the gross amount of the cash; all receipts not pertaining to customers' accounts are entered in the Miscellaneous column.

On the Disbursements side are entered the check numbers, the amount of the checks in the Total Cost column, the Discount earned, and the distribution to Accounts Payable or Miscellaneous.

At the end of the month the totals of all columns of the Cash Book are posted to their respective controlling accounts in the General Ledger.

Petty Cash.—For petty disbursements it is customary to maintain a separate record, and there are two methods of handling this so-called "Imprest Cash Fund."

(1) The general cashier draws a check for say $100, charges it to Petty Cash on the General Ledger, and sends it to the petty cashier, from whom he takes a receipt. The petty cashier enters it in the Receipts column of his book and proceeds to disburse it. At the end of the month, he foots the various columns and prepares for the bookkeeper a Journal voucher debiting the accounts for which funds have been expended and crediting Petty Cash; the balance of the Petty Cash account on the General Ledger is then the same as the balance on the Petty Cash Book. When additional petty cash is required, another $100 is drawn and charged as before.

(2) In the second method the process is the same up to the reimbursing point, when the petty cashier submits his vouchers to the general cashier, instead of to the bookkeeper, and receives a check for the exact amount expended, which is distributed on the General Cash Book to the affected accounts instead of constituting another charge against Petty Cash; in the latter method the Petty Cash Book is taken out of the general system of books and lessens the chance for error; it is obvious also that the Petty Cash Account on the General Ledger always remains constant, no charge or credits appearing in it unless the fund is actually increased or reduced.

Sales Record.—A means must be provided to record the sales. A method much in vogue at the present time is to prepare the original invoice in quadruplicate. The shipping department receives two copies, one of which is

forwarded to the customer at time of shipment, the other preserved by the Stock Room keeper as a requisition for the goods. The third copy is filed in a statistical binder from which the monthly Summary of Sales is prepared, and the fourth filed in a binder from which the postings to the customers' accounts are made. By this system one clerk does not interfere with or hamper the work of another. As stated, the customers' accounts receive their debit from the Posting Binder; their credits come from the Accounts Receivable column of the Cash Book and the Returns and Allowances Book. The General Ledger controlling entries are prepared from the Summary of Sales which indicates that the various subdivisions of Sales Account are to be credited and Accounts Receivable debited with the amount of the monthly sales, which must agree with the total already charged through the Posting Binder to the many accounts on the Customers' Ledger.

Returns and Allowances.—Goods returned by customers, or sent back to creditors, should be carefully noted in a bound book suited to the requirements of the business; every item contained therein should be supported by a voucher approved by some designated authority; it is well to number these items and also the vouchers, so that in case of dispute, all data relating to the matter may be readily obtained.

Items for which no other means of original entry is provided are passed through the Journal; such would include opening and closing entries, corrections, and transfers.

Ledgers.—In addition to the Purchase, Sales, and General ledgers hereinbefore mentioned a private ledger is sometimes added, and in this are entered items like partners' accounts, the profit and loss account, and any other information which the principals desire to withhold from the office staff. One of the partners or a confidential employee makes all postings to this book, which is fitted with a lock and key.

Results of Operations.—At the close of a fiscal period the auditor or chief accountant of the business superintends the taking of inventories of plant and equipment, and the reserves to be set aside for discounts and for doubtful accounts, after which he prepares from the trial balance and other data relating to items not entered on the books, such as accrued liabilities and deferred charges, the statement of profit or loss for the period. The books are then closed, ledger accounts ruled off and balances brought down, and the accounting department is ready for the business of the next period.

For a systematic treatment of this subject, with sample pages of various books, see *Accounting* (p. 309).

10. Correspondence Department

The position of the correspondence department in any office is a unique one. It takes no part in the definite forwarding of transactions, as do all the other departments. It is merely a servant of the other departments, doing their bidding. But its anomalous position does not at all detract from its importance; on the contrary, because of its intimate relations with all the other departments, its proper conduct is of concern to all of them. A badly run correspondence department will hamper the entire organization. The functions of this department are, briefly, to distribute all incoming mail, to dispatch all outgoing mail, to keep both properly filed, and to control all communication within the concern itself.

In accordance with this division of functions, a sufficiently large correspondence department will have, in addition to the chief correspondent in general charge, an incoming mail clerk, a stenographer, a filing clerk, and an outgoing mail clerk. Where there are several stenographers, they will be headed by a chief stenographer; similarly a large filing division will have a chief filing clerk in charge.

The methods to be here described will be those employed in fairly large offices. They can readily be adapted, however, to offices of the smallest size.

Incoming Mail.—All incoming mail should be received at one desk, there opened (with the exception of those obviously or probably personal, and those addressed to the higher executive officers), sorted and then distributed to the various departments which they concern. Where a letter concerns more than one department, the names (or assigned numbers) of these departments are written consecutively in a standard place in the letter. When the first department has finished with the letter, it sends it to the next, as indicated on the letter.

It will facilitate the handling of correspondence greatly if a request is printed on the letter-heads of the concern that correspondents use a separate sheet for each matter treated. If this is not done, a letter containing an order, a remittance, a complaint, and a request for information may not reach the various departments concerned without considerable delay.

How to Handle Letters.—All letters to be answered by one correspondent should be divided by him or by a capable assistant into three groups: those which must later be sent to another department, those which can be answered without further information, and those whose answer requires additional information. This method of handling correspondence will save much valuable time for the stenographer and also for the correspondent himself.

Taking Dictation.—In former years it was the practise in most offices to have the dictation and typewriting of letters done by stenographers attached to the individual departments. In more recent years, however, the practise has grown of concentrating all the stenographic and typewriting work into one department, each stenographer being subject to the call of any department as needed. In addition to being almost invariably more economical, this method has other advantages. It makes it possible to transfer the stenographers from department to department, so that none of them acquires too intimate a knowledge of any portion of the business. At the same

time it gives each correspondent several stenographers who are familiar with his work, so that if any particular one leaves, or goes on a vacation, or becomes ill, there will be others all ready trained to take her place. Furthermore, a common typewriting force permits of all the noise of the machines being confined to one place. The stenographic force is headed by a chief stenographer, whose duty it is to employ the stenographers (subject to the approval of the chief correspondent and office manager), to apportion the work among them, and if desired to keep a record of the work done, for the purpose of distributing its cost among the various departments.

Short Cuts.—Almost every alert stenographer finds it possible to devise short cuts in handling dictation, depending usually upon some particular feature of the individual business. A few time and labor saving methods that will be of service to almost every stenographer may be suggested. It is a good plan to number incoming letters consecutively, writing the number in a uniform position on the letter. When the correspondent wishes to answer a letter, he calls out its number, which the stenographer notes. It is then unnecessary for the correspondent to dictate the address, as the stenographer can get it directly from the letter bearing the same number.

All letters, of course, are not written in reply to others received. Letters emanating from the firm are usually written to a few people, such as those of whom the concern buys frequently. It will save much time if the stenographer will keep a small card index of these persons' addresses.

Routine Letters.—In every department there are a number of letters which run on essentially the same lines, such as answers to requests for information, complaints of a standard character, etc. A great deal of time and thought can be saved, and a better letter usually produced, if the correspondent will draw up a dozen or more paragraphs. Each of these paragraphs, preserved on a separate loose-leaf sheet, is given a number. In many cases,

it will be found possible to dictate a whole letter merely by calling out numbers of the form paragraphs.

Telegrams.—It is the almost universal custom to-day to confirm telegrams by mail. Where the telegram is frequently used, it will be found profitable to have a form printed of the same size as the telegraph blank provided by the companies. When a telegram is to be sent, a carbon copy on the confirmation blank can be typed at the same time, thus saving the labor of typing the letter of confirmation separately.

Phonographic Dictation.—An innovation of recent years has been dictation by means of a phonograph. The writer of the letter merely dictates into one of these machines, at the side of his desk, such letters as he has in mind. By supplying new "blanks" as many letters can be "written" as desired. The records are then given to the typewriter operator who does not have to be familiar with shorthand, and are transcribed directly upon the machine. The phonograph can run as fast or slow as the typewriter's speed demands.

One trouble about this system is that it is not very elastic about corrections. The person dictating his letter must have clearly in his mind what he wishes to say before he begins.

Filing.—The filing of all correspondence, both incoming and outgoing, and of all invoices, orders, etc., is entrusted to the correspondence department, in the care of a filing clerk. Some businesses make a practise of keeping departmental correspondence files. It is best, however, to avoid this unless the benefits are heavily outweighed by the inconvenience attendant upon trying to locate a particular piece of correspondence that may be in any one of half a dozen files, depending largely on the individual judgment of the particular clerk who happened to file it.

The most important requisite of the filing division is responsibility. There must be one individual, and only one, who is empowered to file a certain letter or to remove

it from the files. If the work of filing is heavy enough to employ several clerks, each one should be assigned a certain portion of the file, for which he alone should be responsible.

When any correspondent requires a particular piece of correspondence he should fill out a requisition for it, or if his time is too valuable for that, the filing clerk himself should make a form note of the matter. In either case, the memorandum should be filed in the place from which the required correspondence has been withdrawn. At stated intervals the files should be gone through and matter too long outstanding should be called in.

Systems.—There are, broadly speaking, two methods of filing; First, flat or horizontal filing, in which the papers are filed so that they lie flat, one above the other; and second, vertical filing, in which as the name suggests, the papers are kept on edges one behind the other. The vertical method is the more modern, and for almost all purposes the better.

The nature and comparative merits of different methods of indexing are discussed further under *Correspondence* (volume two). The actual machinery for same, such as filing cabinets, is described in the chapter on *Equipment and Labor-saving Devices,* in this volume.

A folder should be provided for each correspondent with his name or number written upon it and all his correspondence and papers kept in it, chronologically arranged. If the alphabetical index is used, it will be found too burdensome to make out a new folder for each new correspondent, since his total correspondence may amount to only one or two letters. A "miscellaneous" folder should therefore be provided behind each guide card, in which are placed the letters of all correspondents falling in that section of the file whose individual correspondence is not voluminous enough to demand a separate folder.

The method of filing orders will depend upon the method of handling them in the other departments of the office. If orders are handled as described in the section

on the order department, it will be best to file the original order with the customer's correspondence.

Invoices should always be filed separately, that is, in a separate file or in a separate folder. If the latter method is used, it is well to have the invoice folder of a different color from the correspondence folder.

(See also *Correspondence,* volume two.)

VII

EQUIPMENT AND LABOR-SAVING DEVICES

1. The Tools of Business

Business Expositions—Types of Office Equipment.

2. Calculating Machines

Drudgery of Mental Calculations—History of Calculating Machines—Non-Listing Adding Machines—Listing-Adding Machines—Multiplying and Dividing Machines—Slide Rules—The Cylindrical Slide Rule—Electric Tabulating Machines—Their Use in Census Work.

3. Writing Machines

Typewriters—Typewriters with Adding Devices—The Writing-Adding Flat-Surface Machine—Billing Machine—Use in Loose-Leaf and Bound Volumes—Advantages—Addressing Machines—Their Great Utility in a Publishing Office—Their Use with Time-Cards, etc.—Stencil Cutters.

4. Duplicating Devices

Carbon Paper—Copy-Press—The Mimeograph—Facsimile Letters from Type—Cylindrical Duplicator—The Multigraph—The Autographic Register—Check-Signing Machine.

5. Recording Devices

Cash Registers—Time Recorders—Many Varieties of Time-Cards—Elapsed Time Recorder—Time Stamps.

6. Loose-Leaf, Card, and Filing Devices

Loose-Leaf Devices—Card Systems—Use for Mailing-Lists, Libraries, etc.—Card Ledgers—Indexes—Filing Devices—Two Kinds of Files—Guide-Cards—Sizes and Styles.

VII

EQUIPMENT AND LABOR-SAVING DEVICES

1. The Tools of Business

IN every occupation, trade and profession, nowadays, the best working tools are necessary. Ordinary ones will not do. The farmer can no longer get along with an ordinary plow; he needs a cylindrical one. The carpenter requires the latest screw-driver and square. The printer keeps his eyes open for every new kind of press and typesetter. In the same way, the successful merchant knows that he must have the latest office devices used by his competitors. So great is the interest in the subject, that annual expositions are held in New York and Chicago, at which is shown the widest variety of such material. These expositions are thronged daily and nightly by busy men who wish to profit by the latest and most approved methods in business machinery. No less than a quarter of a million attended the last one in New York. Editors of business papers also state that they are constantly in receipt of inquiries along the same line.

Business Expositions.—The following, taken from a recent announcement, will show the scope of one of these business expositions. "Under one roof you can see in a few hours every modern method and machine for better conduct of your office, store, and factory. Time and detail saving devices, many you have never even dreamed of, will be shown. You can learn many new uses for the devices you already own and use. Perhaps you think

your office equipment modern and economical because made every little while. 'Expositions are the time-keepers of progress.' This exposition marks the remarkable development in time-saving machines and methods for the conduct of business. Come and spend a few hours and see more, learn more, than you could in any other manner by months of painstaking research. Machines that write, add, subtract, multiply and divide; machines that typewrite form letters, thousands of them an hour, putting in a different name and address automatically on each letter, and address the envelopes, seal them, stamp them, and do it all automatically—all you do is to turn the button to start the motor and feed the stack of material into them once in a while. Dictating machines, time stamps, automatic 'factory superintendents' that record in your office the time lost in the operation of every machine in your factory—steel furniture and filing devices that you can not tell from wood until you look into them, check canceling machines, all sorts of reliable business publications, swift typewriters, portable typewriters, and a host of other interesting machines and methods."

These business expositions are found to be of great practical value, as the busy man naturally wants to find all the short cuts possible. If a machine for sealing and stamping letters will do the work of eight clerks, it is his loss if he fails to procure it. If an addressing machine can turn out 2,000 or 3,000 addressed letters per hour, another tremendous saving of time and floor space is the result. If the calculating machine or loose-leaf ledger simplifies bookkeeping labor, and makes it more exact, why do without it? Tremendous strides, in fact, have been made in every sort of office equipment.

Types of Office Equipment.—For convenience of discussion we will divide this subject into five parts, following generally the chief types of office equipment. Of course there will be some overlapping in these types, and for this reason any accurate classification would be impossible. The five groups are as follows:

Calculating Machines.
Writing Machines.
Duplicating Devices.
Recording Devices.
Loose-leaf, Card, and Filing Devices.

2. Calculating Machines

Perhaps the invention of no forms of labor-saving devices has caused a greater sigh of relief to go up than those which have removed from mankind the drudgery of petty mathematical calculations. For centuries man has been using up his good gray matter doing sums—and making mistakes in the doing—until at last a series of mechanical devices have relieved him of this burden, and eliminated the chance for mistakes once for all.

Drudgery of Mental Calculations.—The drudgery of the bookkeeper's task lies in the various mathematical operations he is compelled to follow up every day, with the regularity of dishwashing; and the worst of it is, that most of it is actually wasted labor, since he does twice or three times over the very things which are most mechanical. Duplicating labor in addition, subtraction, multiplication, and division is most common and has always seemed to be the most necessary in the interest of accuracy. The more complicated operations, such as calculation of interest, or percentages, figuring wage scales, and so forth, have demanded a still greater outlay of time and degree of accuracy.

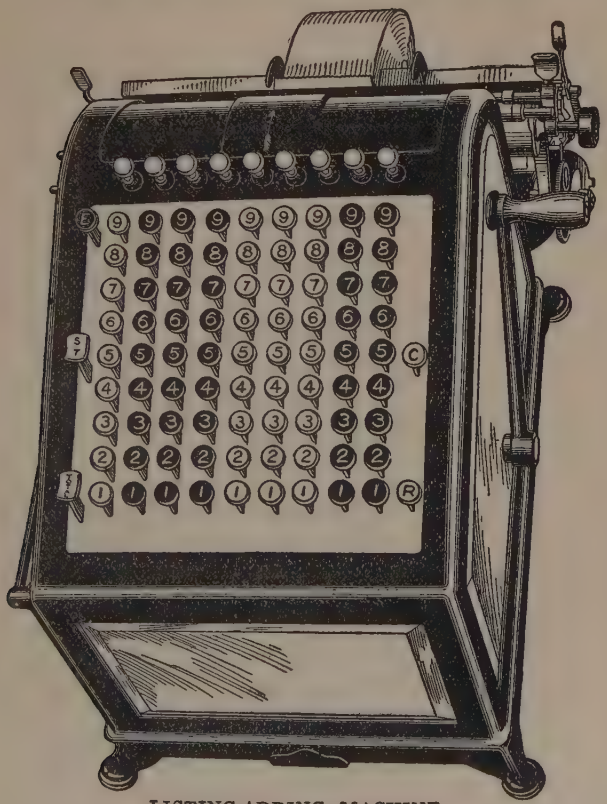
But nowadays, thanks to inventive genius, one appliance after another has come into use to show the futility of his labor. Additions, for example, can be done, once for all, by machinery, so absolutely accurate that no rechecking and footing are necessary. Take this great saving of time as applied to old bookkeeping methods. Formerly the journal or the day-book was first posted, item by item, laboriously footed mentally, and then footed again the other way to verify totals. The material was then carried forward to the ledger, where it was again

assembled and added up. Individual statements formed probably the third step, requiring the same careful addition of the same old items. And finally there was a trial balance which contained the sum total of all these footings. At each recopying was the ever-present chance for error. But the calculating and copying machines, such as here described, have eliminated these antiquated methods.

History of Calculating Machines.—It may be of interest, at this time, to give some account of the origin of our calculating machines, which have so greatly lightened the accountant's labors. The first mechanical reckoning board of which we have any record is the abax, first found among the Greeks, three centuries before Christ. It involved the use of pebbles laid on cross lines, according to a set system of values. Later came the abacus, a modification used by the Romans, which was merely a board covered with fine sand and ruled with parallel lines. The Chinese either borrowed this idea or hit upon one very similar, in their "suan pan," a square frame strung with parallel wires on which ran wooden buttons. The Japanese had a similar device, and after the Tatar invasion we find the Russians also employing it. For several centuries no better method of calculating seems to have been devised until Napier in 1617 published a method for performing multiplication and division, known as "Napier rods" or "bones," which consisted of ten rectangular strips of wood figured on each of the four faces with digits and multiples of digits. This was the direct forerunner of the wonderful slide rule so universally used to-day.

Calculating machines were also invented by Pascal in 1642, and Leibnitz in 1671, but the first important machine was that devised by Charles Babbage, an Englishman, who worked under a Government subsidy from 1820 to 1833. The history of his efforts to build a "difference engine" and an "analytical engine" reads like a romance. This complicated mechanism, which was to do mathematical sums of many kinds and record them,

is the direct ancestor of the adding machine of to-day. His invention, left incomplete, after he had devoted a lifetime to it and the Government had spent $85,000 for ex-



LISTING-ADDING MACHINE

The "E" key is for errors; "ST" is for subtracting; the totalizer is so marked; "C" is for clearing machine; "R" is for repeating.

perimental work, may now be found in an English museum, a formidable mass of cogs, wheels, and springs as big as a barrel, a pathetic monument to man's first real endeavor to make a machine calculate for him.

Non-Listing Adding Machines.—This brings us to a consideration of the modern adding machine as we see it in use to-day, and which is of two kinds—the machine which adds but does not make a record; and the one which both adds and records. The direct forerunner of the non-listing type was an arithmometer devised by Thomas de Colmar, an Alsatian, about 1850. This machine had keys and was operated by means of gear wheels and pinions, actuated by a crank, and was the inspiration for many such devices since perfected for use in extended calculations and statistics. His immediate successors were Huart of Paris, Dolesch of Berlin, and Tate of London, each representing some improvement in plan. To-day there are five or six machines of this type ranging in price from $75 to $150. They satisfactorily perform the great mass of ordinary calculating which arises in the course of a day's work. Their chief claims over the larger machines are that they are cheaper; that they can be operated more rapidly than the listing machines, as there are no levers to manipulate; and that they can be used for all sorts of calculating other than addition. As they do not list their figures, however, it is impossible to check back errors such as might arise in setting amounts down. One manufacturer answers this objection as far as possible with the following argument:

"Our machine does not print, and in this feature lies one of its principal advantages, as owing to the rapidity of operation it is quicker to repeat the addition, in case of error by the operator, than to check a printed list with the original copy. Comparing a printed copy with the original copy is not only a very slow method, but extremely unreliable as well, as transposition of figures is very liable to be overlooked. Therefore, the value of a listed addition is largely visionary. The desire for a list disappears when the operator has acquired rapidity in operation and has confidence in the machine's absolute accuracy. No paper is used, there is no lever to manipulate, therefore maximum speed is easily maintained in long additions."

Listing Adding Machines.—"The adding machine that enables us to keep account of the world's work to-day," says Gooch, "was the invention and life work of William S. Burroughs, a native of New York State. It was never gotten up simply to sell, but first of all to do its work perfectly." Burroughs worked during the closing years of the nineteenth century upon a machine which should record all its operations and carry a total at the same time. The same general idea has since been perfected by makers of several well-known adding machines, each of whom claims some special advantage for his product. These machines vary in price from $200 to $500, and, although expensive, have sold by the thousand during the fifteen years that they have been upon the market. One house alone claims to have sold 100,000 machines. A variation of this is a machine operated by electricity, thus leaving both hands of the operator free.

Adding machines which make records are used for the widest variety of purposes, and in every field of commercial activity, but they are chiefly confined—as their name indicates—to straight addition. A great advantage in their use is that by the use of carbon paper two or more lists can be made at the same time. These pages can be directly inserted into books of the loose-leaf type, forming perfectly accurate copies of every transaction, without the labor and risk of transcribing. Here is a sample of the argument for their use advanced by the manufacturer, showing how the labor of preparing accounts is simplified:

"Any retailer who does a credit business knows how the day when he makes statements is a constant source of worry. Nine cases out of ten it means night work from one to three nights of the month, and if statements are sent out every week, as in some stores, it means night work still more frequently. No matter what credit system may be used, the adding machine will save time, because it makes it possible to handle statements from 50 to 75 per cent more quickly, it eliminates the arguments, hard feelings, and loss of trade which come

OLD WAY	NEW WAY
157.38	157.38
762.91	762.91
435.75	435.75
800.76	800.76
43.02	43.02
987.25	987.25
500.00	500.00
1003.50	1,003.50
245.65	245.65
82.47	82.47
4250.86	4,250.86
1014.75	1,014.75
243.92	243.92
914.75	914.75
5475.80	5,475.80
14850.07	14,850.07
0410.25	410.25
.74	.74
9.10	9.10
27.72	27.72
896.35	896.35
1238.63	1,238.63
7800.00	7,800.00
10000.00	10,000.00
127.34	127.34
77.01	77.01
303.24	303.24
3808.89	3808.89
448.92	458.92
1456789.34	1,456,789.34
11025.22	11,025.22
600.10	600.10
2250.85	2250.85
14823.45	14,823.45
6207.12	8,207.12
2100.00	2,100.00
1552724.11	1,552,723.11

TWO WAYS OF ADDING

The parallel lists shown above furnish an interesting contrast between the old way of listing and adding figures by a person and performing the same operations by a machine. The left-hand column was listed and added by a clerk in 9 minutes; and the right-hand column by an adding machine in 1 minute and 30 seconds.

as a result of errors in statements, because the machine does its work accurately. Errors are important; if you under-add a statement you lose the price of your merchandise sold, if you make an error against a customer you may lose the customer. It costs too much to get trade—and profits on each sale are too small—to take any chances either on losing money on the one hand or a customer on the other. Your cashier, or you, can make statements twice as fast on a machine as can be done by either of you by hand. When you are through you know the work is right."

Multiplying and Dividing Machines.—Machines intended primarily for multiplication or division are much simpler than the others, and much cheaper, for the reason that no listing mechanism is necessary. In performing these two operations one does not care for anything except results. In nearly all modern machines of this type, two sets of figures are put on the keys or cover plates, the larger of which are used for multiplication and addition; the other two, for division and subtraction, are called complemental figures. They will register results in a single and continuous operation. It is also possible to solve problems in fractions, denominate quantities, powers, roots, and logarithms, as well as calculate interest and per cent. The operation is very simple and rapid, especially for multiplication. In many of the largest business houses of America all this work is done by girls, at small salary, who quickly become experts and accurate at it; but some houses prefer to employ two girls for the same calculation, if highly important, thus ensuring accuracy.

Machines for multiplying or dividing come in a variety of forms, from a simple, inexpensive device, to a costly machine which will perform a lengthy problem with the utmost expedition and accuracy. A machine sold for about $350 will be found of the greatest utility in offices where constant multiplying, for example, is necessary. It has a capacity of eight figures in the multiplier, eight in the multiplicand, and sixteen in the product. The ma-

chine is simple in operation. Suppose it is required to multiply 54,937,532 by 532,876. The first group of figures is set by a series of knobs in perpendicular grooves at the top of the machine. Then turn the left-hand indicator crank successively for 5, 3, 2, 8, 7, 6, and turn the right-hand indicator once each time the figure is set, and the correct result will appear in the lower dial.

Slide-Rules.—The slide-rule was first devised for draftsmen and engineers, and its use is still largely limited to such professions. It has never met with general favor in offices for the reason that it seems complicated and cumbersome. Yet it is actually a simple device which is at the same time capable of performing many different kinds of arithmetical problems. For the ordinary operations of multiplying and dividing, where only an approximate answer is necessary, it is simplicity itself.

As for its bewildering array of figures, an ordinary carpenter's square is similarly marked. The carpenter merely learns to disregard the figures which do not concern him at the time, and arrives at once upon his results. This is precisely the principle of the slide-rule—learning to ignore all figures except the ones which immediately concern the problem in hand. When this principle is discovered, it proves highly valuable to accountants in working up data for reports and statements.

It is of course difficult to illustrate the working method without the instrument itself in hand. The device consists of two complete sets of scales, from 1 to 10 on the upper section of the rule, and two similar sets of scales on the upper part of the slide, so that if the figure 1 is on the rule opposite the 1 on the slide, all the other figures register also, or coincide. On the bottom part of the rule, and on the bottom part of the slide, are scales with graduations twice as long as those above. In multiplying, the index is set on the slide and the multiplier on the rule. In dividing, set the index on the slide, and the answer appears opposite on the rule. Find the multiplicand on the slide, and the answer ap-

pears opposite on the rule. In dividing, set the index on the slide to the divisor on the rule. Find the dividend on the rule and the answer appears on the slide. Beginners may experience difficulty in remembering the varying values of the scales, some lines being read for 1 point, some for 2, and some for ½. But it is not necessary to commit all this to memory. The eye soon becomes accustomed to these graduations and will follow the right one automatically.

This device, which is based upon logarithms, is also used constantly for more intricate work, such as square root, cube root, rule of three, fractions, and problems involving two or more operations. Full instructions may be obtained with the slide-rule, which is sold in varying lengths from 5 to 20 inches. Some have been prepared as long as 6 or 7 feet. The longer the rule, the greater its accuracy. A 20-inch slide-rule costs about $12.50.

The Cylindrical Slide-Rule.—An improvement upon the plain rule above mentioned is the cylindrical, which has the advantage of much greater accuracy, due to the increased number of scales. As its name indicates, it is a revolving and sliding rule which may be made to register at any given point against scales mounted on triangular faces. An almost infinite number of variations and exceedingly close calculation are the result.

On a plain slide-rule, the distance from 1 to 2 on the bottom scale is about six inches, while on the cylindrical rule this distance is about 9 feet; hence the graduations are about 18 times as long, leading to a correspondingly greater accuracy.

This rule is used practically in the same way as the flat one. The index reads from 100 to 1,000, instead of from 1 to 10, and while there are 20 different series of figures, only two series are used at one calculation, and these are quickly found by simple rules. In accounting, the device is of the greatest service in determining averages, unit costs, interest, pro ratas and percentage, in short, all examples involving the division of a great many

numbers by the same divisor, where the answer is desired to be correct only to the fourth or fifth figure. A good cylindrical slide-rule can be bought for about $35. Larger ones cost twice as much.

Electric Tabulating Machines.—In offices where a large amount of statistical matter is required, the electric tabulator commends itself. It is designed for adding and re-adding totals according to any classification. It is operated by an electric motor and all its mechanism is so controlled. The machine is placed upon an iron stand about the height of an ordinary table. Its operating mechanism is beneath the stand, while in the upper part are installed the required number of adding machines with dials facing outward. A small frame supporting a series of vertical needles is upon the front part of the table, and this frame when pressed down causes the needles to complete the circuit with numbers represented by the dials.

The figures to be tabulated are punched upon cards somewhat similar to those used in Jacquard looms or "self-playing" pianos. When such a card is fed to the frame and pressed upon the needles, only those needles which pass through the holes complete the circuit and register upon the dials. A small punching device is used to prepare these cards.

If a company wishes, for example, to tabulate a system of sales and expenses, they first punch the full record of each bill as received on one of these cards. The cards themselves may then be sorted out in any manner desired. If by months, and the month of February is desired, the figure 2 (for the second month) will be found at exactly the same place on each card, and they may be filed upon a wire or a needle in such a manner that it would be impossible for the card of another month to be present. When the cards are fed through the machine, two or three different totals will be recorded following the number of dials, as for example, first the total amount of goods sold, second, the number of sales, and third, the total expenses. In fact, any sort of tabulation may be

obtained giving simultaneously such facts as number of units, cost price, selling price, profit, expense, etc.

In this way most elaborate cost systems may be installed. The operator may sit in front of the tabulator with his cost ledger and record or post the various totals as they appear upon the dials—and this without the slightest fear of error, for the machine will stop if it reaches a card not in any given series or classification. The cards are also added in so many different ways that a system may easily be devised to balance their grand totals.

This system is especially valuable where a company has a number of branch offices; in department stores where several different entries are necessary to keep the history of a sale; and in insurance offices, agencies, railroad offices, publishing houses, and many other lines of business where statistics are required.

Their Use in Census Work.—The United States Government has found these machines very useful in census work, shortening the work and time tremendously. Itemized cards are arranged for a wide variety of data. A fairly expert girl with one of these machines will punch 3,000 schedule copies in eight hours, while 500 cards an hour have been recorded.

The mechanical tabulator which completes the work begun by the puncher is very compact and simple in appearance, considering the variety of work it performs. The punched card is sent to the tabulating section. Some of the spaces marked with the holes bear symbols in letters or figures which mean bushels of wheat in the farmer's crop, number of cows in herd, value of the last harvest, acreage of farm, etc. Spaces have been arranged on the card for all this and much more. If a table is to be made up from totals of figures to go into the census reports, the cards corresponding to the State or section, or the millions of cards which give the figures of the whole country, are brought to the tabulating room. Again the cards are set under pins connected with keys. One pin point is provided for every space on the

card, but only the keys are pressed connecting with the pins that are over the holes punched. Another lever push and the pins drop through the card holes into tiny cups filled with mercury. In the machine are a series of recording dials with movable pointers. The forcing of the pins into the mercury moves the pointers upon the dials by electric current. The dials are so arranged that one is provided for every hole or space on the card—for every item of information on the census schedule. Actuated by the electric current these dials actually count like the adding machine in a bank, only far more rapidly, registering every figure. To them are attached rolls of "tape" which are operated upon and fed out like the familiar stock ticker.

At any time the tabulator wants to know how much he has added, he presses the lever and the exact total of acreage, or crop, or value so far counted, is shown on the tape. When the last card has been run through, all the totals summed up by the machine are recorded. By this plan a half dozen or more totals for the tables can be figured out at the same time.

3. Writing Machines

Under this head will be considered the various devices for writing or making connected records. The classification is not exact, as some forms of adding machines may be said to write, so far as setting down figures is concerned; but we are here considering devices such as typewriters and addressographs.

Typewriters.—No other single device is in so universal use among business houses as the typewriter. It is, in fact, too well known to require description here. Machines are being built in almost every conceivable style to do the special work required of them. The two most distinct types are (1) those which write upon a circular platen or roll using loose sheets; and (2) those which write downward upon a flat surface, or even upon a bound book.

Typewriters with Adding Devices.—In each of the two forms of typewriters just mentioned, adding mechanisms have recently been installed, which are chiefly useful for rendering statements and various other features of bookkeeping. Only two manufacturers at present offer such machines, these being merely adaptations of their particular pattern of typewriter. The device which has been added to the usual form, *i. e.*, writing upon a circular platen, is a "totalizer," as the adding mechanism is termed, which is held on a rack secured to the front of the machine. One or more totalizers may be used according to the number of columns to be added, and may be moved freely backward and forward to the position of the column on the page. Placed beneath the rack which supports the totalizers is the operating mechanism which in turn is connected to the figure keys of the keyboard. Two levers are employed in connection with the actuating mechanism of the totalizers. One of these levers serves to throw the mechanism in or out of gear as required. The necessity for such provision is seen in a case where a number denoting a date might be placed directly over a column to be added and which, of course, should not be included in the total of a column of figures.

The other lever serves to change the totalizer into a subtracting machine. This is a feature that is particularly useful when a discount or a debit has to be deducted from an amount, as the result is obtained and set down with one operation. The subtracting lines can also be relied upon to correct an error made by striking a wrong key. The claim of absolute accuracy is made for this machine. When one of the adding keys is depressed, the others are locked until the first has returned to the normal position. It is thus impossible to operate two keys at the same time. In addition to preventing errors in addition, the nature of the mechanisn is such that the keys are locked, when an error is made. It thus prevents such errors being overlooked and makes it necessary to have them rectified before work can be continued.

It is also claimed that the adding and subtracting

feature does not interfere in any way with the regular functions of the typewriter. It is placed directly in front of the operator and is actuated by the figure keys alone. The same keys are used for both adding and subtracting and in the same way. When a total is written, the machine automatically returns to the starting point and is ready for the next computation.

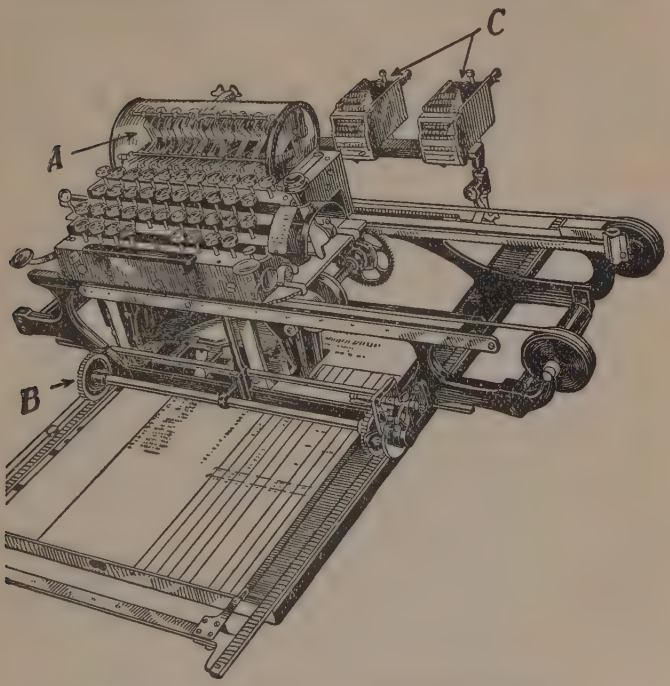
A machine capable of writing a line 7¾ inches long upon paper 10 inches wide, fitted with an adding device having a capacity of 99,999.99, can be bought for $250. One writing a line 16 inches long having an adding attachment of 9 figures capacity costs $280. The totalizers vary in price, according to capacity, from $70 to $80, each additional figure adding about $5 to the cost.

The Writing-Adding Flat-Surface Machine.—The manufacturers of this admirable machine say in its behalf: "The work it does is complete; its simple operation leaves no detail undone. Transacting business requires writing and figuring on bound books or loose leaves; and just so surely as any of that detail is rehandled there is more work, delay, increased expense and chance for error. Writing on a flat, stationary surface, as it does, makes possible the concentration of much detail into one handling.

"An adding register remains fixed over each column to be added. As an item is written in a column the depressed key engages the adding mechanism and the register records the written number in its proper unit or decimal place, and adds the figure of the item to those already accumulated in that column. Figures written outside of columns are not recorded. Although the adding mechanism is an integral part of the machine it is under separate control of the operator and is operative or inactive at the touch of a lever.

"Records are made at will directly on the pages of regularly bound books; on loose leaves of any dimensions; on heavy envelopes, cards or tags of any thickness; and on combinations of these materials. Almost any com-

binations of buying, selling and manufacturing orders, acknowledgments, receipts and filing records may be made simultaneously by this safe and rapid method. The



WRITING-ADDING FLAT-SURFACE MACHINE.

As used for billing purposes.
"A"—adding mechanism; "B"—movable carriage; "C"—column totalizer.

free downward stroke of the type produces marvelous manifolding results. A large number of copies may be written in one operation; any copy may give all or any part of the record shown on the original or any other copy."

In billing and other work it makes with the original copy of the order as many duplicates as are wanted, including the bill, charge and shipping ticket, all printed

with figures added mechanically in as many columns as desired. The machines will make ten copies easily, fifteen just as easy, twenty if wanted, and more "in a pinch." As the sheets are held firmly and flat, there is no creeping, slipping or crumpling. Where figures are copied in columns there is absolutely no shifting of cross or vertical alinement. The entire writing surface is exposed and operations may be instantly moved from one point to another. Corrections can be made quickly and easily without moving forms or disturbing the register.

Billing Machine.—The advantage of the machine just described for billing purposes is self-evident. In fact, the manufacturers lay special stress upon this attachment as distinctly a billing device. Its advantages in manifolding have already been mentioned.

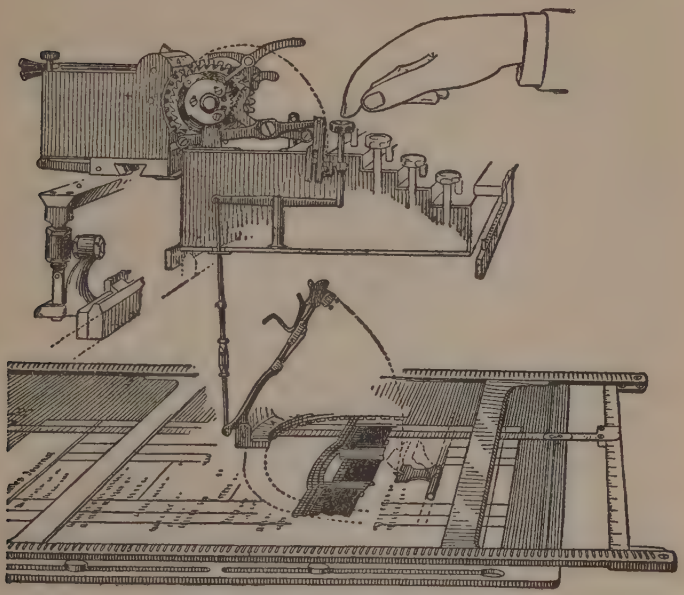
To obviate the necessity of handling so much carbon paper the machine is often equipped with a roll of carbon paper which is unrolled as required. With this machine bills and sales sheets in duplicate and triplicate may be prepared at one operation. In some cases an adding machine may be used in connection with the billing machine, with the result that the work of billing and charging becomes a question of accurate copying rather than one requiring any special knowledge of bookkeeping.

The sales sheets which are considerably larger than the invoices can be moved along with each invoice until the whole sheet is filled, while other forms upon which a record is required, such as an office or factory order, or bill of lading, if in different sizes, are secured in position by binding screws and strips. With this machine the charge may be entered on the sales record, which may be either a bound volume or one of the loose-leaf type, simultaneously with the preparation of the bill, while the addition of the sums opposite the various items may be effected on both bill and record at the same time with the writing.

In comparison with the method in which the charge entry is made subsequent to the preparation of the bill, the advantages of such a machine are as follows:

1. Certainty of a charge being made of every bill, the items of each being added with mechanical precision.

2. One checking saved, because bill and charge, when written at one operation, can not be other than alike.



DETAIL OF BILLING MACHINE.

3. A saving of the time consumed in a separate writing of the bill and the sales record.

4. Less space required by a machine for writing, entailing a diminished expenditure for stationery and storage space.

5. Diminished cost of paper—a less expensive grade usually answers for machine work.

6. Any number of additional carbon copies can be made without any extra labor or delay.

7. Uniformity and legibility of machine writing facilitates quick reference.

8. Less possibility of error in posting and reading machine written records.

9. Fractional characters, suited to the character of the work, that print at one stroke and effect a further saving of time.

Use in Loose-Leaf and Bound Volumes.—When using a loose-leaf record, one of the pages is placed upon the bed or platen of the machine. A sheet of carbon paper is placed upon the page and the bill and duplicates added, beginning at the top of the page. The bill when completed is removed and another blank placed in position, but further down upon the record page which is left in the machine. In order to save space, any printed matter on the bill head may overlap the record of the previous bill. When the record sheet is filled on one side, it may be reversed and the other side filled, after which it may be filed in the binders.

When using a bound book, the body of the book may be supported beneath the platen of the machine, while the leaf in use is laid across the platen and held in place by a strip which binds its margin. The entry book may be merely a tissue copy-book, or a ruled sales book of the ordinary variety. In either case the procedure is the same, and practically no time is lost in turning the page on the platen. When a number of forms of varying length are used, or certain statements are required that are to be omitted on the other, cut-outs or "blinds" may be inserted between the forms.

The flat platen is a distinguishing feature of this form of billing machine. It preserves the alinement of the various sheets, whether two or twenty. As the papers remain stationary on the platen feed, the thinnest tissue or carbon paper is handled with as much facility as that of regular weight. The platen is also made to accommodate a single sheet of paper.

In general the writing line capacity of such a machine may vary from ten inches to two feet, but reports forty-eight inches in width have been prepared on an eleven-inch machine without folding or creasing the paper. One

large corporation prepares reports ninety-six inches in width on a machine of the same size. The motion of the printing mechanism is controlled by one hand, the work is stationary and the machine brought to the desired line or column by a pull. A slight push causes it to glide back and expose the whole sheet.

As previously stated, addition may be effected simultaneously with this writing. This is brought about through the union of an adding register with the printing mechanism. The two are separate and distinct machines and may engage or disengage at will by means of levers. When the two are in gear, the depression of the key, in addition to making an impression of the figure on the paper beneath, automatically actuates an arm connected with the adding device, recording the written number in its proper unit or decimal place, at the same time adding the figure to those already accumulated in the column. If several columns of figures are to be added on a sheet, as many adding registers must be supplied as there are columns; and while one register is adding dollars and cents, another may be adding weights, and another measurements—all on the same machine. When the additions are completed, the register may be instantly returned to zero.

The writing and adding billing machine is not intended to supplant typewriting machines and adding machines in their respective fields. Ordinary correspondence or plain addition is more easily effected through the agency of the usual machines; but for billing and ledger statement posting the compound machine is probably the most efficient and accurate mechanical device ever designed.

Advantages.—The following argument is advanced for this direct method of bookkeeping by the manufacturers: "Why should a bookkeeper—any bookkeeper—your bookkeeper—post all month long to a ledger and wait until the whole month's posting is done to find out whether he has done it right or not, and if he hasn't, to delay to-day's work to hunt for yesterday's and last week's mis-

takes, and when he has located his error and 'got the trial balance,' then to copy his month's posting all over again—duplicating the work of making out the monthly statements? Why should any bookkeeper do all this work and put in a lot of overtime for from two to ten days the first of each month, when this machine will do the work faster, easier, and more legibly—post to the ledger and make out the monthly statement at one operation, and prove mechanically its own work as it goes along, so that when the last item is posted at the end of the month the statements can be sent out at once?"

Addressing Machines.—Concerns doing business on a credit basis must mail, each month, a statement of account to each of their customers. Where the business is small in volume, the work of addressing, sealing, and stamping the envelopes is usually done by hand. But in a large business house a great mass of addressing is necessary. In making up the pay-roll in establishments employing a large number of persons, the list of names must be duplicated in many instances from one to four times per month.

Publishers of newspapers and periodicals meet with a similar requirement in their business, and also many large mercantile houses, who maintain a list of customers to whom they send advertising matter, etc., at intervals. When it is considered that from 1200 to 1500 addresses is the average output of each person working eight hours per day, it will be seen that the method is both slow and expensive.

Newspaper and periodical publishers were the first to attempt addressing on a large scale by other means than the hand. The method originally employed was to print the names of the subscribers from type which was set up and kept in galleys, subject to such changes from time to time as were necessary. The method is now obsolete, but it gave rise to a number of inventions which have proved highly efficient. Many of these addressing machines are exceedingly simple, both in construction and operation, while the small space required for their installation and

their comparative cheapness render them available for general office purposes.

Their Great Utility in a Publishing Office.—One large publishing house does all its addressing by means of a motor-driven "rotary" addresser, which prints the name and address, together with what is known as the return stamp, in a different colored ink. The operator can run the machine at the rate of 7,000 wrappers per hour, and provision is made for varying the length of the wrapper according to the thickness of the publication, so as to maintain a uniform lap for pasting.

The paper used is purchased in rolls and placed in that form on the machine. It is highly essential to secure a paper which will be tough, yet thin, and to meet this demand the special paper used was originally imported direct from Sweden, although it is now being made in this country.

Over 3,000,000 wrappers are used each year, which gives a chance for some interesting figures and comparisons with the old method of addressing.

An expert wrapper and envelope addresser can write possibly 800 wrappers a day. And to address the weekly number of wrappers needed would require a department of at least twelve girls, commanding salaries of $8 a week apiece, or weekly a total of $96 paid for wages, which figures up the sum of $4,992 as the yearly total.

Contrasting this with the machine, we find that a single operator employed at $15 a week constitutes the sole labor item—$780 paid for wages a year, as against $4,992.

To obtain the exact amount the machine saves we must consider its initial cost of $350, which, added to the operator's wages, gives us $1,130. Subtracting this from the cost of labor under the hand-addressing method, we arrive at the final total of $3,862 saved a year—to say nothing of the elimination of mistakes and spoiled wrappers, together with the advantage of always being able to keep well ahead of the work. In one type of machine the addressing is effected through the agency of paper stencils. Provision is made for storing the stencil when not

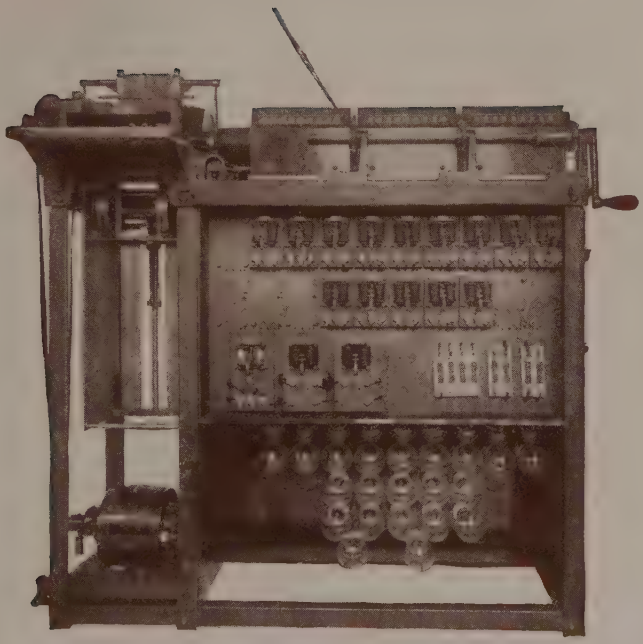
in use by means of trays at one side of the cabinet upon which the printing apparatus is secured. The operation of the machine, which may be effected by a foot lever, is as follows: A number of the stencil cards are placed in a rack at one side of the apparatus. This rack is so designed that one card after another is drawn automatically from the bottom of the pile and moved along a slide until it rests beneath an inked roller. The wrapper, envelope, or card is placed beneath the stencil while a motion of the foot depresses the ink roller, at the same time carrying it across the face of the stencil and producing an impression upon the paper beneath.

Each stencil after having done its work is automatically moved along to make way for the next and is deposited in a tray from which they are restored to the original receptacle. With such a machine, from 2,000 to 3,000 impressions per hour can be produced, at a very slight expense beyond the wage of the operator.

A certain feature in the mechanism makes it possible to duplicate or triplicate the impression from each stencil when more than one copy is required, and also permits of the passage of any number of stencils of which no copy is required. Such a machine is also provided with means for printing upon sheets, cards, or envelopes, which are fed in from the front of the machine.

The advantage of the duplicating and triplicating mechanism is seen in such work as the preparation of a pay-roll, where the name can be printed on the time-card, the pay-roll envelope and the record sheet with three successive motions of the lever.

Their Use with the Time-Cards, etc.—When the time-cards of the various employees are returned at the end of the work period they may be arranged in the order in which the names appear on the sheet. The amount due each employee may be ascertained from a calculating table and written upon his card. The sheet is then placed in the adding machine, the amounts entered opposite each person's name, and the total amount ascertained. The applications of an addressing machine, indeed, are varied.



Electric Tabulator

The "last word" in calculating devices. Cards perforated with holes to show certain statistics are fed into the rack on the upper left-hand corner. Then by actuating any of the series of electric devices in the center, the desired totals may be obtained in the three flat dials at the top. This machine is described on page 270. It has been extensively used in United States Census work, shortening by many months the labor and time required.

In addition to the uses already noted may be mentioned the preparation of gas, water, or electric light bills, the names and addresses being prepared previous to entering the meter reading and computing the charge.

Stencil Cutters.—With the earliest types of addressing machines special contrivances were necessary for cutting stencils of the various names and addresses. These stencils are still in use in many offices, and are prepared as follows: Blank cards of the proper size are fed into the machine by hand. A revolving dial which indicates the position of the letters or figures is rotated by the operator until the character required stands opposite the index. A treadle underneath, when depressed, cuts out the character indicated. On account of the expense of the stencil cutter—which costs about $150, or more than twice the price of the addressing machine itself—many houses do not make their own stencils, but send their orders for them to the manufacturers.

The whole difficulty of preparing stencils has been obviated by a recent improvement patented by one addressing machine company. Their method, in fact, is so simple as to promise to revolutionize the process. Instead of requiring a special machine to cut stencils, they have invented a prepared paper or "parchment" which is at once thin, tough, and impervious to rough handling. Cards made of this parchment, protected at the edges, are inserted in an ordinary typewriter and inscribed with the addresses desired. They may then be fed to the addressing machine, and inked through to produce the desired copy.

The advantages of this method are obvious. The address is a perfect imitation of typewriting, instead of the machine-made characters of the earlier stencil, and a letter thus addressed will reach the busy man who would toss the "printed" envelope aside unopened. Again there is practically no time or money lost in replacing these stencils. They may always be kept up to date, and are quite as durable as the other kind, although lighter and more easily handled.

Before dismissing the question of addressing, reference should be made to a form of envelope which does not require an address. It has sometimes been called a "window envelope" and has an opening on the side in the position where the address would ordinarily be written. Through the opening, which is protected by a transparent film, may be seen the address on the body of the letter, provided the sheet has been folded in a suitable manner.

4. Duplicating Devices

As its name implies, a duplicating device is one which enables the operator to produce two or more copies of original matter at one operation. Such devices vary from the single and commonplace use of carbon sheets to the most elaborate machines for making facsimiles.

Carbon Paper.—Carbon paper is cheap and easily obtained, either in separate sheets or by the box. Where a copy of a letter being sent out is desired, the sheet of carbon is placed, black surface downward, between two sheets of writing paper. The upper one is then written upon by pen, pencil, or typewriting machine, and a copy is transmitted by the same operation to the lower. More than one copy can be made in this manner, although each succeeding sheet will be fainter. This method of copying letters is supplanting the old-fashioned copy-press in many houses. The carbon copy is pinned to the letter of which it forms the answer, and both are filed in one operation, forming a full history of one transaction.

Copy-Press.—The original method of obtaining the exact copy of a document is by dampening the freshly written sheet of paper, by the use of blotting sheets, placing the same against other sheets of thin paper, usually bound together in book form, and pressing firmly together in a screw-press. A certain variety of ink is essential, known as copying ink, and if the process has been properly effected, a sufficient portion of the ink will be softened and adhere to the dampened paper. Copy

paper is usually thin enough to be transparent so that the writing may appear correctly when viewed from the reverse side of the paper. In either of the above cases, seldom more than half a dozen copies can be produced with success.

The Mimeograph.—The mimeograph is a patented device which will produce a large number of exact copies by the stencil process. It will duplicate anything written with a typewriting machine or pen. The stencil is produced by writing with a stylus on paper placed on a steel block. The surface of the block is covered with minute elevations, which pierce the paper as the stylus is pressed upon it.

In preparing a stencil with a typewriting machine, a piece of gauze is placed between the paper and the cylinder of the machine, causing a similar result as when the paper is struck by the type.

The essential part of the machine is a cylinder which is revolved by a crank. Outside of the cylinder is placed a cloth pad which serves to carry the ink, which is applied with a brush on the interior surface. The ink passes through perforations in the cylinder and the interstices of the pad by capillary attraction. The stencil is then placed outside the ink pad, and blank sheets fed in by the left hand, while the right operates the crank. As the blank sheet passes under the roller, ink is forced by pressure through the stencil and appears on the sheet in a succession of minute drops, following the lines of the original writing. If the impress is firm and even a good facsimile can be secured.

In the later machines, as the crank is revolved, the sheet is printed and discharged automatically, while a counting device registers the number of copies produced. Over 3,000 copies can be made per hour with the mimeograph at a cost of about one cent for fifty copies. It is practically automatic in operation and is specially adapted to printing notices, quotations, circular letters, forms, music, drawings, and anything else written by hand or on a typewriting machine.

Facsimile Letters from Type.—Every one is familiar with the characteristic appearance of a typewritten letter. Every letter, however, that has this appearance may not have been produced on a typewriter. Many concerns, nowadays, are engaged in the manufacture of letters made to resemble those produced by a typewriting machine. Such letters are usually general notices in the nature of an advertisement, the original of which was prepared by the person or firm whose name is subscribed to the letter. The manufacturers of these letters usually agree to duplicate the color of ink and form of type used by the typewriting machine for their customer, so that the address preceding the body of the letter which is omitted by them may be inserted from their customer's mailing list in his own office.

When the color and type are properly matched, the whole has the appearance of a regularly typewritten letter, and carries a more direct personal appeal than if the same words were printed with ordinary type as a circular or folder.

At the same time, the expense and time incident to the production of such letters is but nominal compared with what it would be if done piecemeal on ordinary typewriting machines.

Cylindrical Duplicator.—Various methods have been devised to produce a number of duplicate copies of a document from an original. They all, however, are dependent on the use of a copying ink, a portion of which when moistened is transferred to another sheet where the two are brought into intimate contact.

What is known as a cylinder duplicator is perhaps one of the most rapid of these devices. It consists of a cylinder about nine inches in length and one foot in circumference to which a handle is secured by means of a fork connecting with the pinions of the cylinder. The surface of the cylinder is covered with a substance suitable for securing the negative of the written material made with a copying ink. Duplicate copies are produced by simply rolling the cylinder over blank sheets. When the original

writing is made with a typewriter, from fifty to seventy-five duplicate copies may be obtained from the cylinder and from one hundred to one hundred and twenty-five copies from a pen-written original.

The Multigraph.—An apparatus extensively employed in recent years for the production of multiple copies is known as the multigraph. The machine may be operated either by hand or power, and it is claimed that from 2,000 to 6,000 copies per hour may be produced through its agency. The multigraph is also adapted to the use of electrotypes and may be used to turn out work similar to that done by a regular process, using any face of type, and printing ink instead of aniline.

Form letter, office and factory forms, statements, circulars, pamphlets, folders, booklets, tags and a variety of office and factory stationery and advertising material may be turned out by regular employees without the aid of skilled labor.

It is also claimed that a saving of 25% to 75% may be effected in the production of all printed matter through its use.

In this machine, a pair of cylinders rotating upon the same axis are employed. One of these serves as a receptacle for the type when not in use and the other, which is similarly constructed, as a holder for the type as it is used in printing. An illustration of this machine is shown in the chapter on *Form Letters and Follow-up Systems,* volume two.

In setting up the type for a letter, the cylinder which serves as a font is rotated until the horizontal groove in which the required type letter is held is in line with a similar groove in the printing cylinder. By pressing a small lever the type letter is moved along to its proper position on the printing cylinder. This process is repeated until the line is completed. The printing cylinder is then turned until the next line is in position, and so on till the letter is finished. A carbon sheet is next wrapped around the printing cylinder, while the paper to be printed upon is fed in and drawn through by the

rotation of the printing cylinder as it is actuated by a crank in the hand of the operator.

In distributing the type after the printing is done, the process of setting previously described is merely reversed.

The multigraph is not a large or cumbersome machine. No more space is required for its installation than is necessary for an ordinary typewriter desk. When operated by electric power, a motor of one-eighth horse-power, which may be connected to an electric lamp socket, is of sufficient size. It diminishes labor and adds practically nothing to the cost of operation. In the latest models, the forms may be sent up and printed as required, while the printing drum is so designed that a piece of job work may be delayed and rush work substituted without having to distribute and reset the type.

The Autographic Register.—A contrivance used in the production of multiple copies of a particular character is known as an autographic register. These are found in nearly every store and office for making several records of a sale, or similar transaction.

Briefly described, the machine consists of a metallic box or case, in the sides of which are secured the pinions of two or more parallel rods. Rolls of paper are secured upon the rods and their extremities led over a flat surface on the top of the case so that a portion of the paper is exposed to be written upon. Rollers actuated by a crank serve to draw the several ribbons of paper along as they are required. Rolls of carbon paper are also secured to rods. They are placed in such a position as to pass between the strips of paper upon which the writing is done, and are automatically wound in a direction at right angles to the path of the writing paper. When the crank is turned, a fresh surface is presented as required.

These machines are made in a variety of styles to suit particular conditions. If only two copies are required, for instance, one as a bill for the purchaser and one as a shipping order, the intention being to use both immediately, they may both be drawn out by turning the crank, and torn off.

If another record is required, a third roll is added and a second strip of carbon paper. Quite frequently the bottom sheet of paper is not drawn outside when the crank is rotated, but is rolled up inside of the machine, from which it may be later removed, thus forming a permanent record of all the previous transactions. In many machines the gearing which advances the rolls of paper is so constructed that while the upper strips are being advanced the full width of the form, the permanent record slip is moving just sufficient distance to receive one line. This is, of course, the case only when the items of which a record is required can be written on one line of the original. The autographic register is used extensively in preparing invoices or sale slips, and in the preparation of any brief document, of which a great many of the same character are required, and of which a copy must be kept. Machines having triplicate rolls may be purchased for about $25.

Among the advantages of the autographic register is the impossibility of discrepancies in the several records of a transaction when made on such a machine. The stationery and carbon sheets being always in position and ready for use, are a convenience to the operator and thus a saving of time. The stationery used in such a machine is comparatively inexpensive, so that economy is also a feature of importance.

Check-Signing Machine.—In modern business establishments every precaution is taken to guard the valuable time of the high-salaried executive officials. In one respect the president or the treasurer of a great corporation is at times more burdened with perfunctory work than the least important clerk, and that is in the labor of affixing his signature to checks, stock certificates, and other pieces of paper that stand for money. At dividend-paying time important officials must spend large parts of several days in succession in simply writing their names over and over again, to the exclusion of other work.

A machine has been introduced to lessen this expensive labor by causing the movement of the pen, held in the

fingers of the signer, to execute ten signatures at once. The machine consists of a substantial steel writing table on which is arranged a "monitor pen" which is handled in the usual way. The pen, however, does no direct writing. Instead, it is connected by a flexible joint to a light aluminum frame, supported on almost frictionless roller bearings so as to move with utmost freedom in any direction in the horizontal plane. Ten separate fountain pens are secured to the frame, spaced at regular distances apart and slanted at the best writing angle. The papers to be signed are placed on a flat bed below the frame. By a simple pantograph mechanism the frame follows every movement of the monitor pen, so that a signature executed by the latter is simultaneously written by each of the ten pens, giving ten identical signatures.

5. Recording Devices

Under this arbitrary head are grouped Cash Registers, Time Recorders, and Time Stamps.

Cash Registers.—An apparatus which had its inception in antiquity, but which did not reach its present state of development until within a very brief period, is the cash register. The name is descriptive only to a partial extent, as the improved models of recent years, in addition to making a record of the amounts involved in a series of cash transactions, perform many other functions as well.

The earliest form of "cash register" was the abacus used by the ancients. This was used primarily in computation, but also served to indicate to the purchaser the extent of his obligations. For many years no successful attempts were made to devise an apparatus of this description, and only within the last thirty years has a cash register in any way resembling the machine of today been put upon the market.

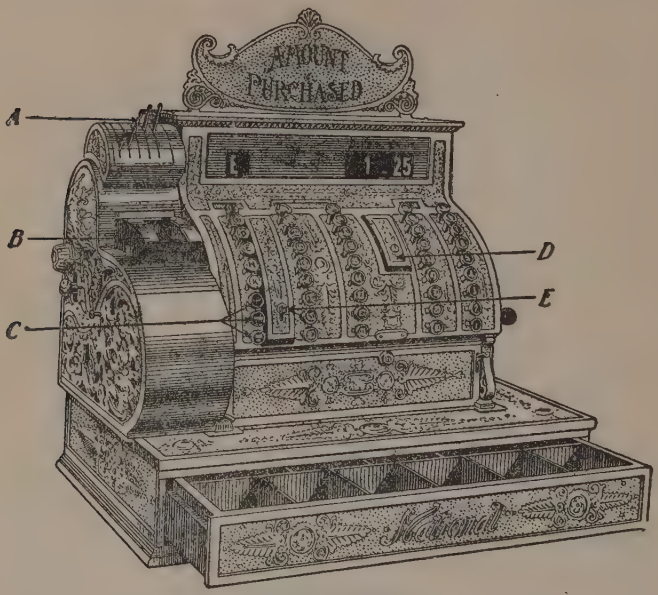
The cash register is essentially an American product. It is exceedingly doubtful if such a machine has ever been imported into America from a foreign country,

while on the other hand, a large portion of the output of American manufactories is for export to other lands. These go to many of the countries of Europe, Central and South America, and are adapted to the currency of the country to which they are sent.

The cash register for business purposes is considered by many an absolute necessity. While many concerns have succeeded without its aid, the fact yet remains that in a retail business especially, through its use, a correct record is kept of details which might otherwise be overlooked to the detriment of the business. The absolute check furnished by a cash register upon the honesty of employees is perhaps the feature of greatest importance, and the one most difficult to perfect. A marked difference exists between a cash register and other mechanisms, so far as their operation is concerned. While the majority of appliances perform their function properly only when correctly handled, a cash register must be so constructed that it can not be handled in any but a proper manner. In other words, to be a successful machine, it must be both fool and rogue proof, for a machine which may be manipulated in such a manner that no record or a false record is made fails in its first requirement. In the earliest and least complicated of such devices, the drawer usually was opened by means of a spring, accompanied by the automatic ringing of a bell, while the record of the sale was made on a paper by the clerk himself.

The outer working of the device is generally familiar. After one's purchase is completed, the clerk depresses a key and turns a crank, a gong sounds, a drawer opens, and your amount purchased is registered on a dial at the top. This much is apparent to the observer. If he were familiar with the workings of the up-to-date machine, he would know that in addition to the above phenomena, a record was being made of the amount of the sale, possibly the number of the clerk making the sale, and the sum of the amount of the sale, and all previous ones, for the benefit of the proprietor, enabling him to tell at a glance at any time just how business is progressing.

The essential elements of a cash register consist of a number of keys which actuate the mechanism, when depressed by the operator. Each key has printed upon its face a figure indicating a certain amount of money,



CASH REGISTER.

"A"—levers for credit, sales numbers, etc.; "B"—record of transaction; "C"—special keys for charges, receipts, and disbursements; "D"—record of total number of customers; "E"—record of money paid on account.

usually increasing five cents at a time up to a dollar or more, according to the nature of the business or the capacity of the machine. When the key is pressed, several distinct mechanisms are put in operation. The appearance of the indicating card showing an amount corresponding with the amount on the key has been noted. This feature informs the customer, or any one else familiar with the amount of the purchase, as to whether the correct amount has been registered by the

clerk. No clerk, even with a desire to profit at his employer's expense by registering an amount less than that actually received, is apt to ring up a false amount under the eyes of a customer who, for all he knows, may be an intimate friend of his employer.

The ringing of the gong at the time the registration is made has also the tendency to attract the attention of a customer to what is going on, even if he is not cognizant of the character of the apparatus. While all this has been taking place on the outside, an adding machine on the inside has been summing the amount last registered with the previous amount. Another contrivance has printed the amount on a tape.

Still another form of this machine prints, separates and throws out a small piece of stiff paper or pasteboard showing the purchaser the amount of his purchase and the initials or number of the clerk, while a separate attachment limits the action of the totalizing counter to the records of cash alone. In some cases the check thrown out may take the form of an itemized bill. When a number of clerks use the same machine, provision may be made to distinguish the transactions of each by the addition of separate adding devices (for each clerk) as well as separate cash drawers. In this way an indication, to some extent, of the respective selling ability of the clerks may be obtained, and mistakes made are easily traced to the person responsible.

Among the more recent improvements has been the application of electricity as a motive power, giving a greater rapidity of operation and less manual labor, and as a means of indicating at a distance, as in an employer's office or home, the transactions occurring at his place of business. The primary object of a cash register is to insure the owner that none of the cash received in his business is diverted from its proper channels; that a correct record is being kept of the same, enabling the proprietor to get in intimate touch with the progress being made in each department of his business, without any trouble or inconvenience and at a moment's notice. In order to satisfy these requirements, a cash register must clearly

indicate every transaction, make a correct record of the same, and operate the adding and printing attachments so that proprietor, clerk, and customer may be assured of the accuracy of every detail in their transactions.

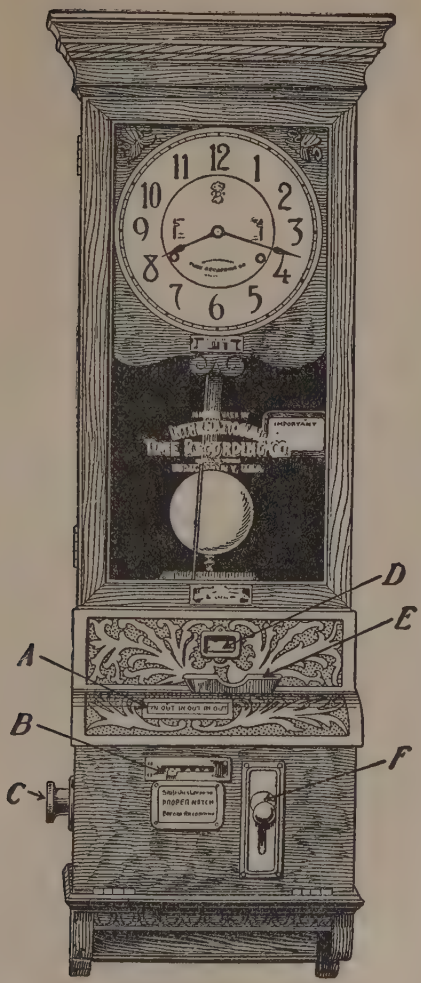
Time Recorders.—A machine which takes accurate note of the working time of employees is popularly known as a time-clock. It consists of a clock of superior quality, in the lower part of the case of which is placed the recording mechanism.

This is, in some cases, operated by levers, a number of which are situated on the front of the case and connected with the internal mechanism in such a way that when moved up or down, as is usually the case, the number of the lever and time is impressed upon the record sheet. Each lever is reserved for the record of one employee, and the capacity of the clock is limited.

A different method of producing the record is by the insertion of a key in the hand of the employee into a suitable keyhole in the clock. A partial turn of the key brings its edge, which bears a number in raised figures, into contact with a strip of paper, resulting in the printing of the number of the key and the hour and minute as indicated by the clock upon a strip of paper, which is automatically moved along for each impression. The full strip forms the office record.

Unlike clocks using levers with which to register, any number of which may be moved simultaneously, the key arrangement only permits one at a time, but on the other hand the key clock may be used for a very large number of employees through the mere provision of extra keys, without in any way altering the clock itself.

Many Varieties of Time-Cards.—The principal manufacturers of time-clocks make several different patterns of clocks, to suit every need. They also state that they have over four thousand forms of time-cards in use, conceived by different users to meet their particular conditions, and representing every class of industry—not only manufacturing plants of all characters, but also



TIME-RECORDING CLOCK

"A"—in and out indicator; "B"—in and out lever; "C"—abutment knob; "D"—day indicator; "E"—card receiver; "F"—registering lever.

stores, offices, schools, libraries and every kind of institution employing help.

Besides the styles of cards generally used for pay-roll and cost keeping purposes, there are various kinds of coupon cards used, the coupon being detached by the operator as the card is taken for the first registration of a pay period. On the pay-day they are receipted and handed in, in exchange for pay-roll envelopes of the corresponding number. Others have a receipt form printed on the back. Many firms have a time-card long enough to use as a bank check; one side printed for the check, the other for the clock record. The pay is computed, the check made out and given to the workman, who cashes it at the bank or grocer's. The card becomes at once the workman's bill to the firm for his labor and the firm's receipt for the payment of same.

Some have the front of the card printed for day-work in black, and the opposite side in red for piece-work.

If the operator is transferred to piece-work, he rings out on the clock, showing the hour he ceases to draw pay as a day workman and begins on piece-work. Others use the back of the card to record time of transfer from one department to another, while on the back of some cards shop rules are printed.

Manufacturers employing piece-workers are more and more realizing the necessity of using time recorders in order to obtain the accurate number of productive hours, as the only way to get the accurate cost is to divide the total burden expense by the total productive hours to get the burden hour rate.

Elapsed Time Recorder.—This machine is designed for none other than cost purposes. It is not intended as a time-recording device for "in" and "out" time. The elapsed time machine prints the starting time, the stopping time and the elapsed time in plain Arabic numerals on one line. There can be no mistake about the accuracy of the result, as it is mechanically impossible for the machine to err. Nor is it possible to place the card in the machine so that an incorrect result is obtained.

The record may be in one of three forms as selected by the purchaser of the machine, as follows: hours and minutes, hours and tenths, and hours and hundredths. The starting and stopping time, however, is always printed in hours and minutes irrespective of the form of the elapsed time.

The device is operated electrically, the impulses being furnished by a master clock. This may be located anywhere in the building, preferably in the office, as it will be less affected by the vibration and dust. To the master clock is also fitted a twenty-four hour limitation or cut-out wheel. The clock transmits electric impulses each minute all through the building to the various elapsed time mechanisms. Thus all the machines are exactly the same time, and cards may be registered in on one machine and out on any other, and correct results obtained.

The mechanism is about nine inches square and is enclosed in a dust-proof iron case. The flat cover has two openings or slots for the insertion of the cards. One opening is marked "in" for the first record of a job, the other "out" for registering when the job is completed. There is also an aperture in the cover through which may be seen a series of indicating wheels showing exactly the time of the day. There is only one handle to be operated and, therefore, no confusion can occur in the mind of the operator as to which handle to pull.

The card used in the machine may be any length desired, but can only be one width, 4¼ inches. In registering, the card is placed in the front of the starting slot and the lever pulled over. This prints the starting time at the top of the card in the space to the left. At the same time four small holes are punched in the card which individualize the record. After a job is completed, the card is placed in the rear or stopping slot, the lever pulled over once more, and the stopping time and the actual elapsed time are both printed on the card by one pull of the handle, thus enabling any one to compare the two records and prove the accuracy of the machine for every record.

One of the salient features connected with this device

is its ability to compute only the actual time worked in the factory irrespective of the time registration. That is to say, in a factory working ten hours a day, from seven to twelve and one to six, the elapsed time only will be computed during these hours. Any registration made before seven o'clock will not begin to count elapsed time until that hour, and the computation of elapsed time automatically stops at noon, to be resumed at exactly one o'clock, and then continues until quitting time at night, when it again stops automatically. The clock movement, however, does not stop, but always shows the correct time exactly the same as the master clock, and is entirely unaffected by the elimination of the non-working hours in figuring the elapsed time. The machine can also be set to record overtime at night, if so desired.

The value of this machine to any manufacturing business is at once apparent. The red tape surrounding the cost department is done away with. There are no deductions to be made from the elapsed time as indicated on the job cards. Nothing remains to be done but to post the time to the proper order sheet and compute the amount earned. The data thus obtained are absolutely accurate.

Time Stamps.—Time stamps are a variation of the well-known rubber stamp, by which the actual time of day at which such stamping is done is indicated. Their use is becoming general in offices where it is necessary to know the exact time when a letter is received or sent, or other transactions carried through. Printers use them largely on their proofs, and for keeping tab on time of author's corrections, etc.

One form of time stamp, operated by a clock in its interior, prints date, time, name of firm and certain words which indicate the character of the transaction recorded as "ordered," "shipped," "received," "answered," or perhaps a consecutive number.

Such stamps are found in many hotels, where they are used to mark letters, telegrams, etc. In factories, they are employed for recording the time of beginning and

finishing piece-work; for registering the time of employees; and for a variety of special purposes in which a record of time is required.

In large establishments, the correct recording of the time of the employees is a matter of importance, and especially so in the case of skilled employees who are highly paid and who devote their time to a number of different jobs.

By keeping accurate record of the distribution of his time, the employee is assured of receiving his full due, while the employer knows not only that he is paying a proper amount for services, but is also able to charge up the correct amount against each particular job. Many instances will arise in which the use of a time stamp is of great importance. Documents which pass from hand to hand, or from department to department, if stamped with the time when they leave one person or department, will settle any argument or doubt on such a point very effectively.

Other important uses to which a time stamp may be put are the timing of telephone conversations; timing of tables in billiard halls; determining the time that vehicles are absent from a livery stable or garage; and keeping track of perishable freight in freight stations.

Stationary time stamps may have a clock incorporated in their construction, or a series of stamps may be controlled by a master clock. A portable stamp with its own clock is most desirable in the majority of cases.

In selecting a time stamp, attention should be paid to the time-keeping qualities of the clock. The clock and the stamp should also be so connected to each other that the jar of stamping does not have a tendency to injure the clock mechanism. In some cases, the impression is produced by a ribbon similar to that used with a typewriting machine. Others have a rubber stamp, self-inking, which usually produces a more distinct impression than those which make use of a ribbon.

In ascertaining elapsed time, dials graduated in hours and decimal parts of an hour are more convenient than those graduated in hours and minutes. Recently invented

stamps read either in hours and decimals of an hour, or in hours, minutes and seconds, as desired.

Three sets of printing dies are customarily used. One prints the time as in the ordinary time stamp; a second stamps the dial at the commencement of an operation; and a third stamps a pointer over the dial on its completion indicating the elapsed time. In order to keep a record of work and workmen, blank cards for each piece of work and each man are required. Any number may be timed on one machine, without any confusion, or without regard to the sequence in which the cards are stamped.

Time-stamping machines of the greatest efficiency are comparatively expensive, but in many instances their use has been accompanied by a marked saving in other directions.

6. Loose-Leaf, Card, and Filing Devices

Loose-Leaf Devices.—A recent innovation in the work of business accounting is what is known as the loose-leaf system of bookkeeping. The Chinese are popularly credited with having been the first to employ a ledger of this description for recording accounts, but recognition must be given to the fact that American accountants were the first to take full advantage of the possibilities of the system, and render it applicable to all forms of accounting. The utility of the system as applied to the actual work of accounting will be treated under another head (see *Accounting*, p. 309), but inasmuch as authorities agree that practically one-third less time is required where such a system is in operation, it may well be termed a labor-saving device, and the mechanical features of the books employed will here be noticed.

As the term implies, a loose-leaf book is one from which the leaves may be removed or replaced as desired with ease and without injury to the book as a whole. To permit this feature, many forms of binding devices have been invented and placed upon the market. The principal points of difference are chiefly in the method by which the leaves and binder are held together. Usually the

sides are two distinct pieces with a telescoping attachment at the edge, corresponding to the back of the book. These fit into each other and may be made to accommodate few or many leaves, protecting their edges, and at the same time serving as a place to locate a label. The telescoping device always gives the effect of a full book.

The leaves are held in place by rods secured to one side of the binder which pass through perforations in the leaves. These rods are frequently made in sections so that an additional section may be screwed on to those already in position, when greater capacity is required.

Some form of spring catch is usually employed to retain the parts in position, while a lock operated by a key in the hands of the person in charge prevents the abstraction of leaves without proper authority. In order to give the leaves a maximum degree of flexibility at the point where they bend when the book is open, the custom has been employed by some manufacturers of pasting a strip of some variety of cloth to the edge at which the attachment is made. This feature is quite satisfactory, but somewhat expensive, and attempts have been made to attain the same results by subjecting the edges of the leaves to some mechanical treatment. The binding elements of a loose-leaf book are generally covered with canvas, cloth, corduroy, leather, or combinations of these. Half corduroy and half leather forms a very serviceable binding at a moderate expense.

Transfer books usually undergo less handling and require a less serviceable and expensive binding than those which are in active use.

In the use of such records, a great saving of time in posting is effected, through the ability to turn instantly to any required account without the necessity of referring to an index. Then the facility with which new accounts may be introduced, and the extensive range of sectionalization possible, to say nothing of decreased expense, are features peculiar to a loose-leaf book.

An illustration of a loose-leaf book will be found in the chapter on *Accounting* (p. 336).

Card Systems.—A device similar in principle to a loose-leaf book, although presenting considerable difference in form, consists of the filing of a number of cards in drawers of suitable size and shape.

The cards are of sufficient stiffness to stand on edge, in which position they are placed in the drawer. They may be obtained in any size desired. One of the handiest card devices consists of a box small enough to place upon a desk or table, yet of sufficient capacity to contain one hundred or more cards. The cards would measure about three inches or less by two. These are used to advantage as a means for recording a limited number of names and addresses for personal correspondence. Such a device has its advantages in the ease with which alterations and additions may be made. A number of index cards having each a letter printed upon a projecting tab are distributed through the case in alphabetical order to assist in locating any particular card. Usually the tabs project at different points on the edge of the card, so that one is not obscured by that directly preceding it.

Cards for this purpose are contained in drawers which fit in a cabinet, the drawers being of sufficient capacity to hold 1,000 cards each. The cabinets are built in units containing two, four, or any number of drawers, and are so designed that one cabinet may be added to another after the fashion of an elastic bookcase, as necessity requires.

The card cases are held in upright position to prevent the cards from falling out of place, but provision is also made to retain them in position should there be an accidental overturning of the case, and prevent the unauthorized removal or addition of cards. This provision usually is a rod running through the case from end to end, and passing through perforations in the cards. To remove or add a card the rod must be withdrawn, if not the entire distance, at least to the point where the card is placed. A more convenient arrangement under some conditions is a perforation at the lower edge of the card in the form of a T, the opening corresponding to the stem

of the letter extending all the way to the edge. The rod is made in two parallel sections which may be brought close together by turning the knob, when it is desired to insert or remove a card. A reverse turn separates the rod which enters the extremities of the perforation and prevents removal of the card without mutilation of its lower edge.

Use for Mailing Lists, Libraries, etc.—Periodicals with extensive subscription and mailing lists are greatly indebted to the introduction of card systems. Ponderous books were formerly required in which were contained thousands of canceled entries which added to their volume and rendered the use of such a book extremely unsatisfactory. In the card system when subscriptions expire, the cards may be removed from the active list and filed with the delinquent list, or destroyed. New cards are added as required, and clerks in charge of the lists have no unnecessary labor in scanning dead names, or carrying useless weight.

In libraries, also, they have been a godsend. Whether in a private library of a hundred volumes or the Congressional Library with its hundreds of thousands of titles, card catalogues are equally efficient and valuable. They permit of any addition or contraction, and any subdivision or classification. Such card systems may catalogue the books by author, title, and subject, so that if any one of the three is known the book may be located. The card also contains space for other details, such as contents, illustrations, size, and publishers, and bears a shelf mark which indicates the exact location of the volume in the library.

Card Ledgers.—Ledgers are also prepared in card form. The cards are larger in size, perhaps eight by five inches, and ruled according to ledger form, but in other respects the arrangement is the same as the forms previously referred to. Card ledgers are particularly suitable for a business having a great many accounts of somewhat limited length, as for example those engaged in handling

clothing, etc., orders for which may be received only two or three times in a year according to the seasons. Savings-banks also use cards extensively for recording depositors' accounts.

Among the advantages of such a system are claimed:

1. Absence of any necessity for handling dead records, cards for open accounts only being retained in the file.
2. No limit to the size to which the system can be expanded.
3. The absence of all closed accounts facilitates making of trial balances.
4. Statements can be gotten out more rapidly as the cards may be distributed among a number of clerks.
5. Any subdivision of the ledger, or classification of accounts, may be effected through the agency of index cards.

Indexes.—The same methods of indexing apply in this case as to any other card system. Either numerals or the letters of the alphabet may be used, but with a numeral index a key to the numbers is essential. Guide cards with the names of cities and States may be used if such a classification is desired. Care must be taken that the cards removed from the case are not lost or destroyed. A locking device is usually incorporated with the case to prevent the abstraction of any cards without proper authority, and no one should be permitted to remove cards without furnishing the bookkeeper with a receipt for the same.

Filing Devices.—The introduction of filing devices, now so extensively used, is one of the direct consequences of the tremendous increase in commercial activities during the last half century. Under modern conditions the facts possible to record in the books of account form but a very small proportion of the business records of any concern. Letters, orders, bills, receipts, contracts and many other written documents constitute a most import-

ant feature in the transaction of business, and the ability to refer to any document at any time, without undue loss of time, is a condition of affairs much to be desired.

In a concern made up of several departments, it is considered advisable to have the files situated at one place, centrally located, if possible, so that they may be equally accessible to all departments.

The advantage of such an arrangement lies in the fact that the head of any department, when referring to previous correspondence with any particular person, is enabled more easily to see any correspondence that may have passed between the person referred to and the other departments.

In connection with filing systems, a card index is usually employed whereby the names of individuals may be traced to the firms to which they belong.

Two Kinds of Files.—There are two general modes of filing employed, based upon the manner in which the documents are placed. Of these the older method has been termed *flat filing* and the more modern method *vertical filing*. The receptacle in the flat filing system usually consists of a shallow drawer of suitable size, having indexed pages, between which the letters, bills, etc., are placed; the whole being held in place by a spring clamp.

Objections to this system are based on the fact that inasmuch as some of the drawers become filled much sooner than others, transfers must be effected much oftener, with the consequent difficulty of preserving the correspondence in good chronological order. Then again, it is impossible to preserve each person's letters entirely separate from others when they come under the same index letters.

In the vertical filing system, which has come extensively into favor, the letters are placed on edge.

Guide Cards.—In any system of filing, the guide or index cards play an important part. These should not be used too sparingly, as too many are preferable to too few.

Guide cards should be made of such material as will

stand the usage to which they are subjected, and should be entered about one to each ten folders. The writing on the cards should be very legible. Some cards have metal tips on which the written matter can be inserted. These cost more at first, but will be found an economy in the long run. If any effort is made to economize on the filing devices, it should be at the expense of the transfer devices, which are subject to the least amount of handling.

A great assistance in the work of filing a batch of letters is what is known as a sorting tray. This is merely a tray bearing a set of cards indexed A to Z into which the letters are placed before going into the permanent file.

(An illustration of methods of filing, together with further description, will be found in the chapter on *Correspondence,* volume two.)

Sizes and Styles.—Many concerns are now engaged in the manufacture of filing devices, among which may be found designs suitable for any line of business. Vertical files, which are most popular, come in three standard sizes. The smallest is adapted to receiving such papers as invoices, etc.; which do not exceed 5¼ by 8 inches in size, the next size takes the size of sheet used in ordinary correspondence, about 9½ by 11 inches, while the largest or legal size holds papers 10 by 15 inches. The horizontal cabinet consists of a set, one drawer high and three wide, while the upright cabinet is one drawer wide and four or five high. The upright style of arrangement is more modern and requires less floor space.

In cases where a few smaller drawers are required for any purpose, "sectionets" are employed. These merely consist of several smaller cases sliding in an outside case, which takes the place of a full-sized drawer.

Files in their original form were made from binder's board. Later, polished oak and mahogany have been largely used, while recently they have been made from steel, which serves as a protection from fire, and is less expensive than the costly woods.

VIII

ACCOUNTING

1. Theory of Accounts

Rise of the Science of Accounting—Definition—Classification—Relation of the Accountant to the Bookkeeper—The Accountant at Work—The Importance of Correct Accounting—Accounting a Recognized Profession.

2. Bookkeeping

Definition—Debit and Credit—Two Classes of Bookkeeping—1. Single-Entry Bookkeeping—2. Double-Entry Bookkeeping—Advantages of Double Entry—Changing from Single to Double Entry—Example—The Essential Books—Financial Books—Statistical Books—Books in Use—The Cash-Book—The Journal—The Ledger—Two Classes of Ledger Accounts—Arrangement of the Ledger Accounts—Trial Balance—Closing the Ledger—Loss and Gain Account—Assets—Liabilities—The Balance-Sheet—Preparation of Balance-Sheet—Arrangement of Balance-Sheet—Statement of Affairs—Realization and Liquidation Accounts—Conclusion.

3. Systems in Vogue

Bound Books *vs.* Loose Leaves—Disadvantage of Bound Books—How the Loose-Leaf System Arose—Advantages of the Loose-Leaf System—Disadvantages—Evolution of the Loose-Leaf System—Forms of Loose-Leaf Devices—Card Files—Loose-Leaf Ledgers—Slip Systems—Precautions Necessary—Method of Daily Use—Credit Memoranda—Ledger Self-Balancing—Record of Shareholders.

4. Internal Audits

Importance—The Comptroller—Internal Checks Classified—Outline of Internal Check System—1. The Cash—2. Purchases, Manufacturing, and Sales—3. The Ledgers—4. In General—Conclusion.

VIII
ACCOUNTING

I. Theory of Accounts

IT would be difficult to exaggerate the importance of accounting in affairs of business. At the very threshold of civilization, when trade passed a step beyond the mere barter of one commodity for another, the necessity for keeping some sort of accounts arose. Explorations in the Euphrates Valley have disclosed many commercial documents of the Babylonians, at least four thousand years old. The Phœnicians are believed to have had their accountants no less than their clever manufacturers, their expert dyers, their enterprising merchants, and their daring navigators; and bills of exchange were in use between Rome and Athens in the days of Cicero. In the palmy days of the Italian republics, accounting first grew to the dignity of a science. Amalfi, Pisa, Venice, and Genoa each had control of the Mediterranean and consequently the world's commerce, and in the counting houses of those cities were men of busy hands and fertile minds, who not only kept with accuracy the records of the business transacted, but also sought to make simpler and more exact the system by which these records were kept.

Several text-books on commercial subjects were published in Florence during the 14th century, and it is probable that we owe the invention of the system of double-entry bookkeeping to this city, though the first known treatise on the subject was published in the 15th century in Venice. There would have been few banking houses of world-wide fame in Florence, and no historic Rialto in Venice, if there had not been also trained accountants to keep correctly the records of the vast business transacted.

Rise of the Science of Accounting.—In earlier days when the subject of business was largely a matter of simple barter, and buying and selling were reduced to their simplest terms, the subject of accounting was really nothing more than the keeping of accounts, or books. The next step was the systematization of bookkeeping, in which several books were used with an inner relation to each other.

But as commercial transactions became more and more complicated, bookkeeping was found to be inadequate. The same set of books could not always be made to cover the desired demand and the special type of business. Or, as the business grew, the set of books which was originally comprehensive for it would be found lacking in many important respects.

From such needs as these arose the profession of the accountant, as he is known to-day. His special field has been to direct the successful working of the bookkeeping force, and arrange the books so that they will not only record the transactions properly, but also indicate the entire standing and history of the business. He is the professional adviser of the owner of the business—in other words, the business specialist.

Coming down to our times, the successful management—even the very existence—of the great business enterprises largely depend upon the careful and painstaking labor, and trained skill and unswerving integrity of the skilled accountant. His report is the firm's sole reliance in every business move, as for example, when the precise condition of a business is to be ascertained; when a manufacturing plant is to change ownership; when the exact value of the stock of a great railway or other corporation is to be determined; or when the standing of a vast financial institution is to be examined.

Definition.—Accounting is the scientific analysis and interpretation of financial and commercial transactions. It may be termed an exact science which treats (1) of the methods of recording such transactions, and (2) of the rules by which such transactions may be interpreted

from books of accounts, and explained intelligently to the layman for his guidance in business affairs. It is based upon a thorough knowledge of economics, finance, bookkeeping, and commercial law.

Accounting may be either *statistical,* which deals with the general plan of grouping data into suitable accounts; or *mathematical,* which deals with the method of handling these accounts in the regular routine of business. The mathematical treatment is elementary, and any one who reads carefully one of the many excellent treatises on bookkeeping will experience little difficulty in comprehending the systems planned by accountants. Statistical accounting, however, calls for a much higher degree of efficiency, and in a complicated business gives full scope to the talent and experience of the consulting expert.

Classification.—The work of accounting may be classed under the following heads:

(*a*) Mercantile and Manufacturing Accounting, which relates to the accounts of traders and manufacturers, and includes shipping.

(*b*) Mining Accounting, which includes all reports and specifications of a mining concern.

(*c*) Financial Accounting, which includes the accounts of banks, trust companies, insurance and investment companies, building and loan societies, and stockbrokers.

(*d*) Fiduciary Accounting, which relates to the accounts of executors and trustees.

(*e*) Public Service and Municipal Accounting, in connection with States, countries, cities, towns, school boards, and public utility corporations.

(*f*) Institutional Accounting, which includes private schools and colleges, hospitals, etc.

(*g*) Investigations into business concerns of all descriptions for all kinds of purposes.

The accountant's work is largely creative. He devises the working method by which a group of given transactions is to be recorded, and superintends the carrying out of the system. It is his province so to advise men as to make their business affairs more remunerative. He

ascertains the interest of the individual, or the interest of many individuals, and adjusts the rights of each and all of the parties, noting that each obtains the full share to which he is entitled.

Relation of the Accountant to the Bookkeeper.—The accountant in his relation to the bookkeeper stands precisely in the same light as does the physician to the nurse. The accountant, like the physician, diagnoses the case and prescribes for it by outlining a system of accounts designed to give an accurate record of all business transactions; the bookkeeper, like the nurse, proceeds to carry out the instructions of the doctor of business.

The position of the bookkeeper in charge of the accounts of a large and intricate business is one of much importance and responsibility. He should be skilled in up-to-date methods, acquainted to a considerable extent with the details of the business conducted, alert, careful and painstaking in his work, and above all else, of unswerving honesty.

The public accountant, however, has a responsibility of a higher order and should be possessed of skill and resource. He is, as it were, a court of last resort in matters of accounting. It is on him that his clients rely for correct information as to the character of the bookkeeper's work, and it is also on him that the bookkeeper and his assistants look for a confirmation of their work. Until recent years, the visit of an accountant to a business house or manufacturing plant was the occasion of a hostile demonstration on the part of the office staff, many of whom had been employed by the concern for a long period, and who felt that any change in the system in vogue would jeopardize their positions. They failed to realize that the accountant was a professional man who had given all his time to the study of business requirements, whose experience in the many concerns with which he daily came in contact gave him a wealth of ideas valuable in all lines of commercial and financial endeavor, and that the result of his efforts meant increased efficiency, which would be beneficial to the entire office. Tactful account-

ants, however, soon showed the disgruntled clerks the superiority of new over old methods, and to-day the accountant's reception is more cordial than formerly.

The Accountant at Work.—Let us suppose that an accountant has been retained by a firm or corporation to install a system of accounts. What is his procedure? He first peruses carefully the minutes of all meetings held by officers and directors, in order to ascertain the exact value of all holdings in the shape of real estate, buildings, furniture and fixtures of which items he takes due note. His scrutiny of the minutes gives him the information necessary for the opening entries, and this data he retains for future use. He next ascertains what the probable sources of income will be from sales of manufactured goods, and what the expenditures will be for equipment, supplies, wages, and maintenance. From the material thus far collected he proceeds to draft a suitable form of cash book, columnized to analyze both receipts and disbursements. In certain lines of trade there will be a bank column included in the Cash Book. The use of a voucher check takes the place of the old cumbrous method of detailing data on check stubs.

Having taken care of the incoming and outgoing cash, he turns his attention to the receipt and disposition of goods and supplies, and prepares an order book containing duplicate sets of blanks, the original of which when approved by the proper authority will be sent to the dealer, and the duplicate of which will remain in the book to be checked against the goods when received, before they are entered in the Goods Received Book. All goods will be accompanied by an invoice which is compared with the Goods Received Book, the prices and extensions verified by the receiving clerk, after which it is sent to the bookkeeper for entry in the Purchase Register. This same process is recommended for all other departments, having in charge the manufacture, sale, or delivery of goods—each being planned to dovetail in with the working system of the central office. The vouchers, requisitions, etc., in every department are to be daily entered

in a book provided for the purpose, and the said book sent each morning to the bookkeeper that proper charges may be made therefrom. In addition to the records of the general system, forms must be provided for all statistical information required. The accountant having diagnosed the requirements of the business, and prescribed proper methods of treatment, makes the opening entries in the Journal, and instructs the clerical force in the use of the various books and forms he has provided.

The Importance of Correct Accounting.—It is absolutely necessary that a complete and systematic record of transactions be kept in order to enable the proprietor to ascertain any desired facts regarding the progress and condition of his business, and the extent of his financial relations with others at any particular moment of time. To be able to meet all the demands made upon them, the accounts must be so designed that the work performed shall be just as intelligible to others as to the accountant. When disputes arise in business, it often becomes necessary for records to be placed in evidence, and books which can be explained only by an interested person rarely fail to arouse suspicion. As different businesses have special needs, each must be supplied with books designed to emphasize the particular points in each case.

The necessity for proper recording is perhaps nowhere better exemplified than in factory accounts, which should be so planned as to enable a manufacturer to determine the exact cost of the material and labor expended on a particular article, and to provide a means of calculating the basis upon which it is profitable to sell his products. With the assistance of the cost system he knows exactly what price he can quote to make a certain profit, whereas, without it he would be merely guessing. Great progress has been made in factory accounting within the last few years, due no doubt to the efforts of those who specialize in this department of accounts. The theoretical knowledge of affairs acquired in the hard study necessary to become a certified public accountant, together with the practical training obtained in the exercise of the duties

The Multigraph

Showing the operation of this device for producing facsimile typewritten letters or printed sheets. It may be operated by hand or electric motor. (See page 287.)

one is daily called upon to perform, can not fail to appeal to the man in search of a professional career, yet dismayed by the present overcrowded condition of the older professions.

Accounting a Recognized Profession.—New York was the first State in the Union to recognize the importance of the accountant's work, and to raise it to the dignity of a profession. The expert accountant who proves his fitness for such distinction by passing the examinations set semiannually in Theory and Practise of Accounts, Auditing, and Commercial Law, may be designated by authority of the State a certified public accountant, and may append to his name the letters C. P. A., or "Certified Public Accountant," a title which can not be used by any other person not so approved. Evidence of a good general educational equipment, and graduation from a recognized high school, if not college, supplemented by a thorough technical training, must be submitted before the applicant is permitted to take the accountant tests. It may be of interest to note, in passing, that one may be admitted to the bar of the State of New York upon a lower grade of preliminary education than is required to become a certified public accountant, and it is by maintaining this high standard, both in the preliminary requirements and in the final examinations, that accounting is winning the public esteem enjoyed by the older professions.

2. Bookkeeping

Bookkeeping is the art of systematically recording financial transactions, in order that the results of the operation and condition of a business may be readily ascertained. From the definition it will be observed that two purposes are to be achieved, namely, (1) to record every transaction in permanent form so explicitly that its exact nature can be instantly comprehended; and (2) to provide a classification of accounts from which the result of said transactions for any given period may be determined.

Debit and Credit.—At the basis of all bookkeeping is the distinction between debit and credit. Debit means not merely that something is owned, but that a definite person, property or force is responsible for some value. Credit, that a definite person, property, or force has been granted some value. A general formula for the proper entry of business transactions would be: Whenever an asset is created or an item of expense or loss is to be recorded, debit; whenever a liability is created or an item of income or profit is to be recorded, credit.

Two Classes of Bookkeeping.—Modern bookkeeping may be said to fall under two heads: (1) *Single Entry;* and (2) *Double Entry.*

1. Single-Entry Bookkeeping.—This may be called an incomplete system of recording transactions, in which a given amount is entered upon only one side of the Ledger, and without any counterbalancing entry. It deals almost exclusively with personal accounts, omitting complementary accounts relating to purchases, sales, income, and expenditure. The loss or gain for any period is determined by a comparison of the net worth (the difference between the assets and liabilities) of the business at the date of closing with the net worth at the beginning of the period.

2. Double-Entry Bookkeeping.—Double entry is a system of recording transactions whereby every debit must have a corresponding credit and *vice versa.* The general principles on which double-entry bookkeeping is based are:

1. Every transaction involving a transfer of money or its equivalent must be entered from a double point of view—cause and effect, or source and destination. The advantage of recording every financial transaction in two or more accounts is, that if assets are created the source of their derivation is shown at the same time; if liabilities are incurred, the reason for same is stated. If revenue expenditure is charged, it appears under a specific head-

ing, and the corresponding liability recorded; if revenue income be entered, it shows the source from which it arises.

2. The records of profit and loss disclosed in the nominal accounts must be confirmed by the increase or decrease of assets over liabilities exhibited in the balance-sheet.

3. As a result of the twofold entry, the total amount of the debits in the Ledger should always equal the total amount of the credits, thus evidencing the mathematical accuracy of the posting.

Advantages of Double Entry.—The superiority of double over single entry may be summed up in the following points. In double entry:

1. All items of income and expenditure appear on the Ledger.

2. The expense accounts are so classified that the distinction between capital and revenue expenditure may be clearly noted.

3. Valuable statistics are available as to sources of income and expenditure.

4. The gross profit for the period is determinable through the Trading Account; to entail a gross loss would mean that merchandise had been disposed of below cost; this is most unusual—if it should occur, the fact is obviously of the greatest interest to the proprietor of the business. The knowledge thus ascertained may be availed of to correct a condition which, if not rectified, would mean financial disaster.

5. The value of merchandise destroyed by fire may be calculated by determining the gross profit on trading for a period of years.

6. Not only the net profit or loss, but also the sources of same, may be ascertained by means of the Loss and Gain account.

7. In a large business the result of the operation of each department is disclosed.

8. The trial balance proves the mathematical accuracy of the posting.

9. The balance sheet verifies the amount of the profit or loss shown by the Loss and Gain account.

10. A comprehensive audit is greatly facilitated.

Changing from Single to Double Entry.—The procedure employed in converting single entry books into double entry may be briefly shown as follows:

1. All impersonal accounts, *i. e.,* those which relate to other than customers or creditors, are first to be ruled off.

2. A complete schedule of all the assets and liabilities is then prepared. The data contained in this statement is gathered not only from the books but also from any and all other sources of information, such as creditors' statements, letter files, etc. The excess of resources over liabilities as shown in the schedule is the net capital of the concern.

3. A Journal entry is now necessary to place all the accounts upon the books; all assets are debited and all liabilities and capital account are credited; care must be exercised not to again open personal accounts already appearing on the Ledger.

4. A trial balance is then taken to prove the mathematical accuracy of the postings.

Example.—The schedule of assets and liabilities of a firm whose books have been kept by single entry discloses a series of accounts which may be summarized as follows:

Assets		*Liabilities*	
Cash	$10,000	Notes Payable	$3,000
Merchandise Inventory	5,000	Accounts Payable	6,000
Notes Receivable	2,000		$9,000
Accounts Receivable	6,000		
Real Estate	4,000		
Plant and Machinery	2,000		
Furniture and Fixtures	1,000	Excess of Assets over Liabilities-Capital	21,000
	$30,000		$30,000

A double entry in the Journal would read:

Date Sundries Dr. To Sundries Cr.			
Assets			
Cash	V	$10,000.00	
Merchandise Inventory	post	5,000.00	
Notes Receivable	post	2,000.00	
Accounts Receivable	V	6,000.00	
Real Estate	post	4,000.00	
Plant and Machinery	post	2,000.00	
Furniture and Fixtures	post	1,000.00	
Liabilities and Capital			
Notes Payable	post		$3,000.00
Accounts Payable	V		6,000.00
Capital Account	post		21,000.00

Entry necessary to change books from single to double entry.
Approved by.....The Owner
.....Signed

NOTE: In "Folio" column "V"=Accounts already entered on Ledger
"Post"=Accounts to be opened on Ledger.

The Essential Books.—Accurate recording may be accomplished with very few books. Large establishments use great numbers of books because of the volume of their operations, rather than any peculiarities in their method of bookkeeping. Generally speaking there are two classes of books used in business, (*a*) books of account or financial books, and (*b*) statistical or memorandum books.

Financial Books.—In this class are included all books which record a firm's dealings with other firms, the result of its operations, and its financial condition at any particular moment of time. Purchase and Sales Books, Cash

Books, Journal, and Ledger are examples of financial books.

Statistical Books.—These are the subsidiary or memorandum records found principally in corporations and large firms, and while they are useful in connection with the other class, yet they do not form part of the general system, and it is possible to balance the financial books without referring to them. Among such are the Minute Book, Stock Certificate Books, Order, Shipping, and Commission Books, and such others as are required to furnish statistical information in departmental concerns.

Books in Use.—The Purchase and Sales Books are records of original entry. They detail the transactions of a trading concern, and have superseded the old Day Book which was practically a diary. These books and all other books of original entry should be kept free from erasures, as in the event of being offered as legal evidence any changes would weaken the contention that the books so presented are original documents. Where an error has occurred the correction should be made by counter entry and the original entry marked "Erroneous" with an indication as to where the correction may be found. The Purchase and Sales Books of to-day are columnized to meet the requirements of departmental bookkeeping, each purchase or sale being entered in a "Total" column and also entered under its proper departmental caption on the same line. The footings of all columns will show total purchases and sales and the departments through which they were made.

The Cash Book.—In the old Day Book it was customary to enter everything. The receipts and disbursements of cash were recorded in the same manner as were purchases and sales of merchandise. The necessity for a separate record which would show not only the details of the daily cash transactions, but by which the cash balance on hand at any time might also be determined led to the installation of the Cash Book. As in the case

of the books already noted, it is columnized to suit the convenience of the user.

The Journal.—In all businesses there are transactions taking place from time to time which must appear on the Ledger and yet can not conveniently be recorded in the books hereinbefore mentioned. For such items the Journal is provided, and its purpose is to maintain a record of the debiting and crediting in the Ledger of such items as:

1. Opening entries.
2. Entries which can not be carried through other books of original entry.
3. The record of transfers, which should always be accompanied by careful explanatory notes.
4. Closing entries.

There are various forms of Journals, the requirements of the particular business suggesting the most advantageous ruling.

The Ledger.—It is obvious that some means must be provided by which all items contained in the books of original entry may be collected and summarized in such form as to afford to those interested a ready reference as to the relation of each debtor and creditor to the business and the aggregate effect of the operations.

The Ledger fulfils this office; to each account is assigned a definite space, in which between parallel columns are written, with index references, all the debits and credits relating to the account; by deducting the total debits or credits from the preponderating side of the account, its condition may be seen at any time. Ledgers may be divided generally into five classes:

1. Purchase Ledger, for goods bought.
2. Sales Ledger, for goods sold.
3. General Ledger, for real and nominal accounts.
4. Private Ledger, for such information as it is considered desirable to keep accessible to principals only.
5. Stock Ledger, for record of shares sold, paid for, transferred, etc.

Two Classes of Ledger Accounts.—An account is a record of financial transactions of the same or opposite tendencies, leading to a conclusion.

There are two main classes of accounts, *personal* and *impersonal.* The basic difference is between accounts which evidence the operations of a concern in its transactions with others, and accounts which show the relations of the various elements of the business to one another.

Personal Accounts are accounts with persons, partnerships, corporations, associations, etc. They show the relations of the business in detail with its debtors and creditors.

Impersonal Accounts are all other than personal accounts, and relate only to the internal affairs of the business. They are divided into two groups: (1) real accounts; and (2) nominal accounts. Real Accounts are those which represent value or property owned, and essential to conducting business, such as cash, merchandise, land and buildings, and plant machinery. Nominal Accounts explain changes in real or property accounts, and never represent tangible things; they record income and expenditure and are periodically closed into the Loss and Gain Account. Some of the principal nominal accounts are expense, wages, salaries, interest, commission, rent, etc.

An active account representing debits and credits, and a statement of which is usually rendered periodically, is called a current account.

An account which has been accepted as correct by the person or firm against whom it shows a balance is a stated account.

Controlling Accounts.—In large concerns where the number of debtors' and creditors' accounts requires a division of the ledgers, it is advisable to maintain in the General Ledger accounts which will show the condition of each of the other ledgers at any time, and which will render the General Ledger self-balancing; these accounts are termed Controlling Accounts, and show in a total the amount of outstanding debts due to or

owed by a concern. Among the advantages of keeping such accounts the two following are worthy of special emphasis:

1. At the close of any period a statement, showing the condition of the business, may be prepared without waiting for the details of the Customers' and Creditors' Ledgers.

2. In the event of an error in either of these subsidiary ledgers, it may be located readily through the Controlling Account. Specially ruled books are required for firms using Controlling Accounts, as totals only are posted to the General Ledger Controlling Accounts.

Arrangement of the Ledger Accounts.—The chief consideration in opening a ledger should be to so arrange the accounts that they will lend themselves readily to the preparation of a statement of condition from the trial balance. Such a disposition would be: (1) Nominal Accounts; (2) Real Accounts; (3) Receivables; (4) Payables. The advantage of this order is that if the nominal accounts be kept on one page of the trial balance book, the other pages will consist of detailed schedules of assets and liabilities.

Trial Balance.—A Trial Balance is a schedule of the balances of all open accounts in the Ledger, prepared after the postings of the transactions of the period have been completed, but before the closing entries have been made; it is of service chiefly as a proof of the mathematical accuracy of the postings, and as the basis of the statement of operations and condition. Too great reliance must not be placed on the Trial Balance, however, as it is quite possible to have one, ostensibly correct, which will not reveal existent errors in the Ledger. The footings of both sides may agree, and the number of entries may tally, and yet such errors may be due to posting a debit or a credit to the wrong account, or transposing both sides of a Journal entry.

It is well to record the monthly trial balances in a specially ruled book; they are useful to show the condition

of each account at different periods, and also for reference in the event of errors arising in succeeding trial balances.

Closing the Ledger.—With the Trial Balance as a basis, the entries necessary to determine the result of the operations of the business are made. The inventory of goods on hand is credited in red ink to Merchandise Account, the balance of which is then carried as gross profit to the Loss and Gain Account, and the inventory brought down to the debit side of the account.

Loss and Gain Account.—Credit balances of all nominal accounts in the ledger represent sources of income and must be debited to their respective accounts and credited to the Loss and Gain Account. Debit balances represent excess of expenditures, and must be credited to their respective accounts and debited to Loss and Gain Account. A proper percentage should be charged against the profits of the period to cover wear and tear and obsolescence of plant, machinery and fixtures. Loss and Gain should be debited and Reserve for Doubtful Accounts credited to provide for bad debts. All items such as unexpired insurance, rents paid in advance, taxes, wages and interest due but not yet payable, must be brought into the Loss and Gain Account in order to state correctly the result of the transactions of the period. After the above steps have been taken the Loss and Gain Account will show the net profit or loss for the period under review, and it should be at once closed out. In the case of a single proprietorship or a copartnership the profit or loss is carried to the capital account or accounts. If, however, the business is conducted by a corporation, the balance of the Loss and Gain Account is carried to Surplus Account. The ledger is now considered closed and the only accounts on the books, excepting surplus, are assets and liabilities.

Assets.—The property and rights owned by a concern are termed Assets; there are two classes of Assets, (1)

fixed, and (2) floating. Fixed Assets are those not readily converted into cash, and whose retention is necessary to the conduct of the business. Such would be real estate, plant, and machinery.

Floating Assets are those which are constantly changing. They represent cash, or what may be readily converted into cash without interfering with the plant or its business operations. Examples of Floating Assets are: Cash, Merchandise, Notes Receivable and Accounts Receivable.

Liabilities.—The claims against the business, due to outside creditors as distinguished from amounts due the proprietors (stockholders) or partners are called Liabilities. There are two classes of liabilities, (1) fixed, and (2) floating. Fixed Liabilities are those obligations which do not fluctuate; mortgage bonds would be an example. Floating Liabilities include all other forms of indebtedness, constantly maturing. Accounts Payable and Bills Payable are instances. Where a creditor holds any property of a debtor, out of the proceeds of the sale of which property his claim will be settled, the debt is termed a "secured liability." A "contingent liability" represents a probable claim, which may become actual on the dishonor by the primary obligor of a negotiable instrument, the payment of which has been guaranteed by another. Instances of such would be the discounting of Notes Receivable, and accommodation paper. (See *Negotiable Instruments,* p. 136.)

The Balance-Sheet.—The Balance-Sheet is a summarized statement showing all the resources and liabilities of a business at a particular moment of time, and evidences its financial condition at that time. A balance-sheet presupposes the books to be in perfect balance, hence the double-entry method must be employed in keeping them. An attempt to show the status of a concern, the books of which had been kept by single entry, could only be termed "a statement of assets and liabilities."

Preparation of Balance-Sheet.—After the trial balance has been taken, due provision made for deferred and accrued items, the nominal accounts closed into Loss and Gain, and all Ledger accounts ruled off and balances brought down, another trial balance is drawn off the General Ledger and might appear as follows:

TRIAL BALANCE, 30th JUNE, 1910

(*After Closing*)

	Dr.	*Cr.*
Capital		$133,098
Interest (paid in advance)	$ 200	
Wages (accrued to date)		400
Insurance (unexpired)	100	
Taxes (accrued to date)		50
Real Estate	60,000	
Plant and Machinery	45,048	
Merchandise (inventory)	40,000	
Cash	3,200	
Bills Receivable	3,000	
Accounts Receivable	33,000	
Bills Payable		40,000
Accounts Payable		11,000
	$184,548	$184,548

The particulars stated above would appear in balance-sheet form itemized as shown on page 327.

Arrangement of Balance-Sheet.—It will be observed in the balance-sheet that the assets and liabilities are stated in the order of facility of realization and priority of liquidation respectively; the arrangement should be such as to afford the largest amount of information in the form most readily comprehended.

The arrangement in this country varies from that of England in that the position of the assets and liabilities is reversed. The English contention is that the Balance-

sheet is the account of the business, and therefore the business should be credited with all its resources and debited with all its obligations; the answer to this is that the Balance-sheet is simply a schedule of the open balances appearing on the Ledger and is not an account, hence the balances should appear on the same side of the Balance-sheet as on the Ledger.

BALANCE-SHEET, 30th JUNE, 1910

(*Of a Single Proprietor or a Copartnership*)

Assets			*Liabilities*		
Cash on hand and in bank	$ 3,200		Accrued Taxes	$ 50	
Inventory . . .	40,000		Accrued Wages.....	400	
Bills Receivable..	3,000		Bills Payable.	40,000	
Accounts Receivable..	33,000		Accounts Payable.....	11,000	
		$ 79,200			$ 51,450
Unexpired Insurance . .	100		Capital: at commencement of period	125,000	
Prepaid Interest . . .	200		*Add* profit for period	12,098	
		300		$137,098	
Real Estate...	60,000				
Plant and Machinery..	45,048		Deduct Drawing	4,000	
		105,048			133,098
		$184,548			$184,548

Statement of Affairs.—A Balance-sheet is often referred to as a statement of affairs, and to correct this confusion of terms it is well to note the distinction. While both statements deal with the same subjects, a Balance-sheet, as has been stated, is prepared from a double entry set of books, whereas the information contained in a statement of affairs is obtained partly from the books but mostly from other sources. This statement is usually

prepared for the creditors of a bankrupt, and contains information arranged to show what the assets will produce, and to enumerate the liabilities in their ranking order; it is accompanied by a Deficiency Account which details the losses and shrinkages, and is of value in determining the reasons for the failure of the concern.

In this country there is no prescribed ruling for this statement, and it is customary to follow the English form.

Realization and Liquidation Accounts.—It often happens that the dissolution of a firm is desired or necessary; the affairs are then placed in charge of a trustee who proceeds to realize on the assets and discharge the liabilities. For the purpose of showing the result of the winding up of the business, a Realization and Liquidation Account is opened. It is first debited with all the assets, and credited with all liabilities, excepting capital accounts, per the Balance-sheet; as the assets are realized this account is credited and it is debited as liabilities are liquidated. The expenses of liquidation are charged to this account, and the excess of the debit over the credit side shows the loss on realization. This loss is charged to the capital accounts and the trustee distributes among the partners the amount remaining to their credit. The Realization and Liquidation Account is used also in cases of a temporary trusteeship, where the business is to be continued while in the hands of the trustee. In such a case a Loss and Gain division would be used in the Realization and Liquidation Account.

Conclusion.—The principles which have been described are the basis of the present scheme of recording business transactions, and a thorough understanding of them is essential to all who wish to read the history of a concern from its financial statements. In the two articles just concluded, no attempt has been made to do other than convey a general idea of Accounting and Bookkeeping. For further study the reader is referred to books on the subject by W. M. Cole, C. M. Day, E. M

Hyans, G. Lisle, Wm. M. Lybrand, R. H. Montgomery, C. E. Sprague, J. B. Stephens and others.

3. Systems in Vogue

The discussion of Accounting and Bookkeeping thus far has been limited to the subjects, without reference to the actual office machinery. The constant trend and desire, in this as well as in other departments, is to do away with laborious and cumbersome methods in favor of simplicity.

Bound Books vs. Loose Leaves.—Old and new methods of keeping account are sharply defined as: (1) The Bound Volume system, and (2) The Loose-Leaf system. The first is universally known, and therefore needs no further description here, except to state that each book, whether Cash Book, Journal, or Ledger, is in bound form, so that, when full, accounts must be transferred to new volumes.

Disadvantage of Bound Books.—The disadvantages in the use of the old-style bound volumes may be seen by an imaginary visit to the office of a company which is doing an extensive retail business. We hear the manager ask for one of the Sales Ledgers to refer to an account, and we see a clerk carry a huge ledger measuring about 18 inches by 12 inches containing about 1,000 pages, and very heavy. This interrupts the ledger clerk, who must wait patiently until the manager has completed his reference before he is able to go on with his work. Let us ask him to show us one of these ledgers, which has been discarded as too full to use any longer. We ascertain that it contains the accounts of about 500 to 600 customers, and was in active use for five or six years. Turning over the leaves we are struck by the number of pages which are not used to the bottom, and learn that when the ledger was closed these accounts were transferred to the new ledger, and a close examination reveals that some of the accounts have been located

in several parts of the ledger, having overgrown the space allotted to them when the ledger was opened, while others have been closed after being operated upon only two or three times, and that some of these had become active again after the lapse of some months, or even a year or two. This particular ledger has only been closed three months, and while looking through it several interruptions occur to enable various clerks to refer to previous transactions with different customers. We can now make a summary of the disadvantages of the bound ledger.

1. It is very heavy and cumbersome to handle and move about.
2. One person only can use it at a time.
3. When closed there is always a large amount of unused space.
4. The position of accounts can not remain constant, because of the impossibility of deciding how many or how few pages each account will require, thus rendering constant reference to the index necessary.
5. The index requires rewriting every time a new ledger is opened, and must be altered every time an account is carried to a new page.
6. Numbers of accounts are opened which subsequently lie dead and show no balance for months at a time, or which may be closed permanently after a very short period, but which must remain among the live accounts until the ledger is filled.
7. Operations, such as making out the usual monthly statements, involve turning over every page of the entire ledger, whether blank, in use, or closed.

How the Loose-Leaf System Arose.—Out of such obvious difficulties as the above arose the natural desire to shorten labor, such as recopying, turning over dead material, etc. Card files and similar devices were beginning to find place in the office for use in keeping addresses, filing letters, and the like, and the inquiring bookkeeper began to experiment to see if some of his accounts could not be kept in some such accessible and convenient way.

Hence arose the Loose-Leaf System, which, as its name implies, is the use of separate pages, or cards, which can be inserted in any desired volume or file at will.

Advantages of the Loose-Leaf System.—The following, then, are the chief advantages common to both card files and loose-leaf ledgers when compared with bound ledgers.

1. The size (or number of leaves) of the ledger in actual use is considerably reduced by eliminating both full and empty leaves. (A dozen or so of the latter may be carried for convenience in promptly opening new accounts, which may be placed in their proper order daily.)

2. The order of arrangement of the ledger accounts is methodical and perfectly regular, whereas in a bound ledger it is impossible for this to be the case except for a short period following the opening of a new ledger.

3. Whenever necessary a number of clerks may have the ledger divided between them, thus making it possible to do in a day certain operations which would take a week or more if the necessary data were confined to a single bound volume.

4. The index never requires rewriting.

5. The labor entailed by periodically transferring all slow accounts to new ledgers is avoided, because when an account has been opened once it will never be necessary to transfer it to another card or leaf until the first one is filled.

Disadvantages.—The only objection to the system, on the other hand, is the rather obvious one that so far as substitution of new sheets for old ones is possible the books have lost much value as evidence in case of dispute. The possibility of substitution, however, is not so great as at first thought might appear. Commonly an item is included in totals which are carried from book to book, ending usually in the ledger, and the ledger total or balance is likely to be included in the trial balance or Balance-sheet. The substitution of a new incorrect page for an old correct one seems comparatively easy, and a

procedure sometimes that would be quite as well worth while as any forgery is worth while. When it comes to that, however, any set of bound books may be replaced by a new set. The possibility of detection in that case depends upon the fact that the books would be obviously new, whereas under the Loose-Leaf System the individual pages do not usually show much wear.

One sort of entry, however, is very much open to the danger of forgery under the Loose-Leaf System. Journal entries are usually important and usually they are independent of other entries. That is to say, they are not usually included in totals as are figures of the Cash Book, Sales Book, Purchase Book, etc. To substitute a new false journal page for an old one would be easy, and corresponding ledger pages could also be easily substituted, so that the forgery would be hard to detect. For this reason it is common to use a Journal in the old-fashioned bound form.

The only other considerable danger in the Loose-Leaf System is that some detail may be written and substituted for the correct detail, where no change in ultimate amount is involved; for since only totals and balances are carried through a set of books, changes in detail by forged substitution could not be detected. That is to say, if the dispute were not about the value of the goods, but about the nature or quality of the particular goods ordered or shipped, substitution would be easily possible.

These objections, it should be clearly understood, are meant to imply not that any business houses would condone forgery, but that they wish their books to be so constructed that forgery shall be practically and obviously impossible. They wish to avoid not merely evil, but the possibility and appearance of evil. (Cole.)

As a matter of fact, however, experience has proved that the number of cases of fraud arising out of the use of loose-leaf books is extremely small and no greater than with bound books.

Evolution of the Loose-Leaf System.—The introduction of various loose-leaf devices, as we have seen, has not

been revolutionary, but evolutionary. It doubtless began with the ordinary card files upon which customers' names were kept, and extended gradually until it usurped one by one the functions of the various accounting media themselves. The old-fashioned Day Book, which was practically a copy of the invoices written in a book, required a great amount of labor, and gradually gave way to the press copy books used with a Sales Journal, the latter giving the totals with just a bare hint of the details. This involved a risk of the copies proving illegible, and paved the way for the introduction of the Slip System.

The Cash Book has not so readily given way to change, principally because it has a double function as a book of first entry and also as a Ledger Account (it has, of course, been subdivided into Cash Received Books, General Cash Book, Petty Cash Book, etc., but these are all bound books, although not under the same cover). Its functions as a ledger account will always remain, and the principal objections to bound ledgers do not apply in this instance, because there is only the one account contained in the same book from cover to cover. If we exclude the Petty Cash Book, it is losing its function as a book of first entry, being entered up entirely from the totals of slips (as in the case of a bank) or from the totals of stub receipt books and check books, from which sources the Personal and Impersonal Accounts in the other ledgers are posted up direct. There are still a few items unaccounted for, such as Bank Charges, Petty Cash Disbursements, and Bills Payable, but these will rarely be found too numerous to enter in detail in the cash book. The Discounts totals can still be ascertained by the addition of a special column on either side of the Cash Book and posted to Discounts Account.

Of the subsidiary books the Purchase Journal is the one which is rarely or never discarded for any form of Loose-Leaf System. There would be no objection to so doing, but the advantages are not so apparent as in the case of the other subsidiary books, because, although it may save time to post the ledger direct from the invoices, it is necessary to have an analyzed list of the invoices to

arrive at the total of the goods purchased and of materials and services supplied to different departments under the various heads into which charges and expenses are divided; and the fact that this list or summary is made in a bound book is rather an advantage than otherwise, because, if loose sheets were used, they would have to be filed away in consecutive order.

Forms of Loose-Leaf Devices.—The relief from the rather unsatisfactory evolutionary state above described has been the adoption of complete card files, loose-leaf ledgers and the Slip System generally of which the cards and adjustable pages are merely types.

Card Files.—The Card File is merely a collection of cards arranged on edge in a tray or series of trays, or in the drawers of a specially made cabinet, as described in the chapter immediately preceding this. Every separate account is written on a different card. The size of the cards is immaterial, but for convenience of handling they are made smaller than the pages of the bound ledger, eight inches by five inches being most favored. Any style of ruling suitable for special business may be used.

Extra cards with projecting tabs are used to divide the accounts into the desired groups, alphabetically, numerically, or by subjects, and by using cards with differently colored tabs they may be subindexed as desired. For instance, red tabs may be used to group the accounts into various districts, and blue or yellow tabs to index the accounts under several groups, so that they may always be in alphabetical or numerical order.

A separate tray or drawer is kept for such cards as have been filled or which relate to accounts which have been closed; this is indexed in exactly the same manner as the current drawer of cards. Thus there are no useless cards to add to the size of the current file, which never contains more than one card for each account; and there is the great advantage that the accounts are kept in the same order in both sets of trays, and, therefore, a reference to an account going back a number of years

does not entail looking through several ledgers, but merely through the cards relating to that particular account, which will be found in consecutive order in the section of the closed accounts drawer corresponding to the position of the account in the current ledger. The advantage of using a card file depends upon its capacity for saving time and labor in handling; a very important feature is that references to an account or accounts by other clerks do not hinder the ledger clerk, because only those cards which contain the record of the accounts wanted are removed.

When introducing card files into an office the conditions under which they are to be used should be carefully studied before arranging the indexes.

When the cards are arranged in strictly alphabetical order no further index is necessary, but this system is only suitable for a ledger containing a limited number of accounts.

The numerical system is to be preferred where the accounts are numerous. Every account receives a number when it is opened and always retains that number for index purposes. The cards are filed in numerical order and located by guide cards placed at intervals of ten with different colored tabs for the hundreds.

Under the geographical system the accounts are arranged either according to the alphabetical or the numerical system in each group or district into which the accounts are classified.

Loose-Leaf Ledgers.—Loose-leaf ledgers, to some extent, retain the form of bound ledgers while possessing most of the advantages of the card files. They consist of a number of loose sheets, usually a little shorter and wider than the leaves of a full-size bound ledger, with a linen margin perforated to fit into the locking arrangement of the binder, which is a strong leather-covered steel frame with telescopic posts and spring grips arranged to hold a half dozen or 1,000 with equal facility in a firm grip. A similar binder covered in cloth instead of leather is kept, into which full leaves and closed accounts

may be transferred at once. The best method of indexing is the numerical, a card index being used. If the accounts are arranged alphabetically, the tabbed guide cards may be used for indexing, so that the index is

LOOSE-LEAF LEDGER.

distributed through the book close to the accounts indexed on each sheet.

The following are the chief points of difference between card files and loose-leaf ledgers:

(*a*) The size of the pages of a loose-leaf ledger may conveniently be increased for such elaborate ruling as may be necessary.

(*b*) The leaves in a loose-leaf ledger are quite secure while the ledger is locked. It is intended for use in this state, so the principal or manager may leave the office, taking the keys, knowing that the ledger clerk can not remove or substitute any leaves for improper purposes during his absence.

(*c*) Except when the ledger is unlocked, if a reference is desired to an account in the loose-leaf ledger the whole ledger must be taken, or rather all that part which is contained in the one binder.

(*d*) One person only can use a loose-leaf binder, though when for any reason, such as making out monthly statements, it is desired to divide the accounts between several clerks, this can be done immediately by unlocking

the binder if the person who has the custody of the keys is present.

Slip Systems.—The Slip System is merely an extension of the principle that records made on loose sheets are easier to handle and classify, and, if desired, to reclassify for other purposes than the records made in bound books. It is also useful as a means of expediting the posting up of ledger accounts promptly without in any way interfering with other work, and as a means of reducing the number of records required. The latter object is attained by making the original entry in duplicate in a manifold or counterfoil book, and passing the duplicate slip around the office as a posting medium, all subsequent entries being made from the original, thereby at any rate preventing the perpetuation of an error of posting.

The Slip System is not confined in its application to the financial books of business, and, in fact, is perhaps more valuable in its application to such matters as inquiries, quotations, orders, stock records, catalogues, etc. Thus, when an order is received in a factory, a work order will be made out in a duplicate or a triplicate and one copy kept in the office as a record of the work in progress in the factory, and the other copies sent into the works to the different foremen, and by them handed to the men who are detailed to do the work. Space is provided for each man to enter particulars of the materials used on the job and the time spent or the work done by him, and will be checked by the foreman before being returned to the office when the work is completed. These records may be so arranged as to provide the materials for making up the wages lists, or may be used merely as a check on the wages during a period, and they also provide the data for writing up the Cost Ledger.

Precautions Necessary.—Certain precautions should be taken when applying the system to any business in order to make it effective. Then, and then only, the limitations

of the card, loose-leaf ledgers, and the Slip System in relation to matters of account will not stand in the way of accurate, reliable, and prompt records being obtained, arranged in the most suitable order for quick reference. These precautions are:—

(*a*) Every invoice, receipt, card, or other loose leaf or slip should have the name of the business plainly marked on its face, and should be so numbered and lettered that a register may be kept of the issue and use or return of each individual card or sheet. (Of course, the register will deal with books of invoices, etc., as a whole, but before an entry is made it will be seen that every page in the book has been accounted for.)

(*b*) Whenever an invoice, receipt, or other document intended to be torn out of the manifold or counterfoil book is spoilt in any way it should be returned intact, properly canceled, and attached to the canceled duplicate, to prove that the original was not used for any fraudulent or unauthorized purpose.

(*c*) The stock of unused leaves, cards, invoices, etc., should be under the personal control of the manager or principal, and the records of their issue or return should also be closely superintended by him.

(*d*) Each group of ledger accounts should be made self-balancing, as explained later in one of the examples given, and should be regularly balanced at intervals of not more than one month.

Method of Daily Use.—In a large establishment divided into several departments the actual working of the Loose-Leaf System would be somewhat as follows:

All orders are given on numbered order forms torn from manifold books in which a carbon copy of the order is retained. The invoice when received would be checked against the copy of the order as to prices, etc., and if correct entered into the Purchase Register and analyzed to show the goods purchased for each department, and also the nominal accounts to which other charges must be debited. The creditor's ledger account will then be posted direct from the invoice before the latter is filed

away in numerical order corresponding to its number in the Purchase Register.

The Purchase Ledger and Sales Ledger are arranged on either the Card or Loose-Leaf System, but the General Ledger is kept in a bound book to act as the key to the system as a whole by means of Controlling Accounts.

Each assistant is provided with a manifold invoice book with instructions to write a ticket for each sale effected. The invoice and the duplicate are machine numbered, and a record is kept of each book of them issued to each assistant, and each invoice must be accounted for by him, as will be seen from the following procedure: When an invoice is written, it is torn out of the book and sent usually by mechanical means to the cash desk, together with the carbon duplicate. If the sale is for cash, the cash is also sent up, and the cashier retains one copy of the invoice and returns the other receipted to the customer with the change, if any; but if the sale is for credit, the cashier sends both copies of the invoice to the office. One copy is sent with the goods, and the other is filed for future reference after the item has been posted to the Sales Ledger, and entered into the analysis of Credit Sales Book by another clerk. But to return to the assistant. As soon as the invoice is made out, and before it leaves his hands, the amount of the sale is entered by him on a sheet provided at the end of each invoice book. Each morning he adds up his summary for the previous day, and fills in the total on a small printed slip provided for the purpose. These figures are entered in a Summary of Sales, ruled to show on one line the sales made by each assistant on every day for a month, separate sheets being used for cash sales and credit sales. Thus, however large the establishment and however many assistants are employed, the management have presented to them in convenient form the business done by each salesperson. A column gives the total of cash or credit sales for each day, and the cross reading gives the various totals for the month. The daily totals should prove with the total arrived at by the Ledger clerk or his assistant in his analysis of credit sales, and with

the analysis of cash sales compiled by the cashier in similar form.

When an invoice book is used up, the assistant will hand the Summary sheet in at the office, and ask for a new book. This Summary sheet will then be checked off with his daily returns, which have already been proved to be correct. This will show that each invoice has been accounted for, any spoiled ones having already been handed in.

Credit Memoranda.—Credit memoranda for "returns" will be issued at the office. Manifold books will be used and the Ledger posting made from the duplicate, which will be filed for reference after it has been entered in an analysis of "Returns and Allowances," having a column for each department instead of for each assistant. When the empties or other returns have been handed in, a receipt for the goods on a printed form will be taken from the stub book, and this receipt must be given up by the customer, when deduction is claimed for same.

These receipt books will be recorded as to issue and return, in the same way as invoices, and will be initialed by the person who receives the goods back into stock. The receipt returned for allowance when the account is paid will be pasted on the stub from which it was torn and compared with it, thus acting as a check. When salesmen are on the road for orders they use manifold order books, retaining one copy for their own reference, and sending the other to the office.

If the travelers should also collect accounts, they should use printed receipts taken from a book with stubs, of which complete records would be kept as for the issue and use of invoices. Each traveler would be provided with two books for use on alternate days, so that cash collected by him could be posted to the Ledger direct from the stubs on the following day, the Cash Book, of course, being entered up from the same source. Cash received at the store for accounts would be taken to the office, and the cashier would give a receipt from the stub

book in the same way. The receipts for goods returned and cash collected by the cashier and the travelers would also be posted to the credit of the customer. Cash discounts would be posted to the Ledger from the stub receipts, because they would generally be more numerous than the payments, but care should be taken that Cash received for accounts other than those kept in the Sales Ledger should be entered in the General Cash Book, which is ruled with analysis columns for the Sales, Purchase, and General Ledgers respectively, on both sides, as a basis of proving the Ledgers, as shown hereafter. The total only of the Cash Received Book would be entered each day in the General Cash Book. All payments, except those entered in the Petty Cash Book, would be made by check, and the Cash Book and the Ledger would both be entered up from the stubs of the check book. Checks would be drawn for petty cash and posted to an account in the General Ledger, and each month a Journal entry would be passed crediting this account and debiting the various Nominal Accounts affected, with the payments for the month as ascertained from the analysis of the Petty Cash Book.

The subjects of Imprest Cash and Cash Accounts in General are found under *Accounting Department* (p. 247).

A column is provided in the Cash Book for the number of the receipt book or check-book stubs in place of the usual Ledger reference, and the Ledger is referenced also to the stubs. The invoice duplicates, receipt and check-book stubs, etc., will be kept in proper sequence in a cabinet, the drawers of which bear cards in front showing the number of the duplicates kept in each, so that full details of a ledger account are kept ready for reference if required.

Ledger Self-balancing.—It has been mentioned that the ledgers should be made self-balancing and for this purpose an account must be opened in each ledger with the General Ledger, and a corresponding account opened in the General Ledger. As soon as all the entries have been made and posted each month, Journal entries will

be passed. It will then be found that there is a balance brought down each month on the balancing accounts. In the Sales Ledger the balance will always be a credit balance equal to the net amount of the debit balances on customers' accounts, so that a trial balance may be prepared of the Sales Ledger without reference to any of the other ledgers, and thus a check on the mathematical accuracy of the ledger may be maintained. Monthly balances have been supposed, but, if desired, a trial balance can be taken oftener.

When similar accounts have been raised between the General Ledger and the Purchase Ledger, the latter will be self-balancing in the same way as the Sales Ledger, and the Private Ledger, in addition to being self-balancing, will also contain a summarized record of all the balances in all of the ledgers, and therefore a trial balance of the Private Ledger will be equally as good a basis for the preparation of a balance-sheet as the complete trial balance of all the books and accounts.

The system above described provides all the materials for keeping accurate departmental accounts, and is also suitable for branch establishments, every detail necessary for making periodical returns to the head office being available in concise form. In the head office books each branch would be treated as a separate department or group of departments, a Current Account, the necessary Petty Accounts, and Controlling Accounts being opened for each branch and the postings made from the periodical returns and trial balances sent from the branch, which would be filed away in consecutive order for future reference.

Record of Shareholders.—Where the business is carried on by a corporation having a large number of shareholders the Shares Ledger may advantageously be kept on the Card or Loose-Leaf System, divided into three sections, for:—

1. Present shareholders;
2. Persons who have ceased to be shareholders during the year; and

3. Persons who ceased to be shareholders prior to the last annual list and summary.

The advantages of this method are self-apparent, and do not need enlarging upon. In some files used for this purpose two sizes of cards are employed. The name of each shareholder is written at the top of the larger card, and the particulars of the shares are entered upon the shorter card. Upon each name-card the name, designation, address, and the distinctive number of the shareholder are given. Upon each share-card are recorded the particulars of each block of shares held, showing their distinctive number and their total amount. The share-cards, which contain particulars of the shares held by any individual shareholder, are placed in the front of their corresponding name-cards. The share-card contains a space for the date and number of each transfer. Both cards are perforated near the lower edge so that when the cards are arranged in their drawer a rod may be passed through to fix them in their places. The name-cards are arranged in alphabetical order.

In posting a transfer from the Register of Transfers it is only necessary to take the share-card containing the particulars of the shares transferred from in front of the transferer's name-card, place the number and the date of the transfer upon it, and deposit it in the front of the transferee's name-card. When blocks of shares are split, or a share-card is completely filled up, new share-cards are used and the old ones are canceled.

To prepare a list of shareholders at any time all that is required to be done is to copy out the names and holdings from the cards. No index is required, as the names are arranged alphabetically.

When circulars are being addressed to shareholders any number of clerks may be employed, by taking various sections of the files, and the work completed in as short time as desired. The system is so simple that with ordinary care no error need ever be made, but should a mistake occur it can be readily traced by means of the references on the share-cards, which afford quick means of verification.

4. Internal Audits

The phrase "internal audits" indicates a system of checking accounts and funds from within, aiming to secure as far as possible:

1. Accuracy of all records contained in all the books.
2. Correctness of bookkeeping.
3. Speedy detection of fraud, and thus its prevention.

Internal audits, however, must not be confused with the subject *Auditing* dealt with fully under its own head (volume three), and in which the work of the outside or professional auditor is treated.

Importance.—It is of the utmost importance that every business should have a sound system providing for the current inspection of all items of purchase, sale, receipt, and expenditure by a member of the firm or some designated employee. If the volume of transactions be small, a member of the firm will usually keep in touch with the details, but in large concerns it is customary to place this matter in charge of a comptroller, who may be the treasurer, office manager, or chief clerk.

The Comptroller.—The Comptroller is the accounting officer, and takes entire charge of the bookkeeping of the establishment, devising such records as will be adequate to give proper expression to the results of operation. The duty of the comptroller is to protect the funds of the business, and, if he acts also as treasurer, he is responsible for its financial condition and ability to meet maturing obligations. He has absolute control over disbursements. He is a check on the whole business organization and responsible only to the members of the firm, if it be a partnership, or to the directors, if a corporation.

Internal Checks Classified.—Corporate officers are bound to use care and diligence in the conduct of business, and inasmuch as they are liable—at least morally—for any losses caused by their neglect or mismanagement,

it is essential that they maintain a system to protect themselves, as well as the corporation, from errors of omission or commission on the part of careless or dishonest employees. If the system of internal check is organized on scientific and economic principles, the attainment of the objects desired can only be defeated by collusion between members of the force.

Internal checks may be divided into three groups, and a complete system may consist of any or all of them; the groups follow:

1. *Physical Checks,* which are brought about by the actual operation of one material thing upon another, in which operation at least two persons are concerned, for example:

(*a*) Two keys held by different persons, without both of which keys a safe deposit box can not be opened; a similar case would be in a large bank where two officers each have only part of the combination of the vaults, and the presence of both is necessary to open them.

(*b*) Time-Recording Clocks.

(*c*) Cash Registers.

In the case of the time-recording clocks and the cash registers, a responsible person alone should have access to and control of the records contained therein, and, of course, this person should not be the operator.

2. *Mechanical Checks,* in which machinery of infallible or certain action is operated by one person; such as:

(*a*) Calculating Machines.

(*b*) Billing Typewriters.

3. *Intellectual Checks,* which consist of checking the work of one clerk against records kept independently by another, to which the former is denied access; as, for instance:

(*a*) Cash received by one clerk, entered in Cash Book by another, and posted to the ledgers by a third.

(*b*) Two clerks comparing the postings of a ledger in which they have made no entries.

Outline of Internal Check System.—The general system of internal control should extend to cover every

transaction into which the business enters and in devising same; the following matters merit special attention:

1. **The Cash.**—(*a*) The Cash Book should be kept by one clerk, the cash handled by another, and neither of these clerks permitted to post the Cash Book to the ledgers.

(*b*) All cash should be deposited in bank daily.

(*c*) Statements for payments should be approved by some responsible person, and all disbursements, other than for petty cash items, be made by checks, regardless of the amount.

(*d*) The Petty Cash Book should be kept upon the imprest system (see *Accounting Department,* p. 248), under the supervision of the cashier; the clerk in charge of the petty cash must on no account be permitted to receive any moneys for sundry cash receipts.

(*e*) Every payment must be supported by a voucher.

(*f*) The bank pass-book should be balanced once or twice per month, the returned checks scrutinized, and the reconciliation with the Cash Account made by the comptroller, and entered in a special book.

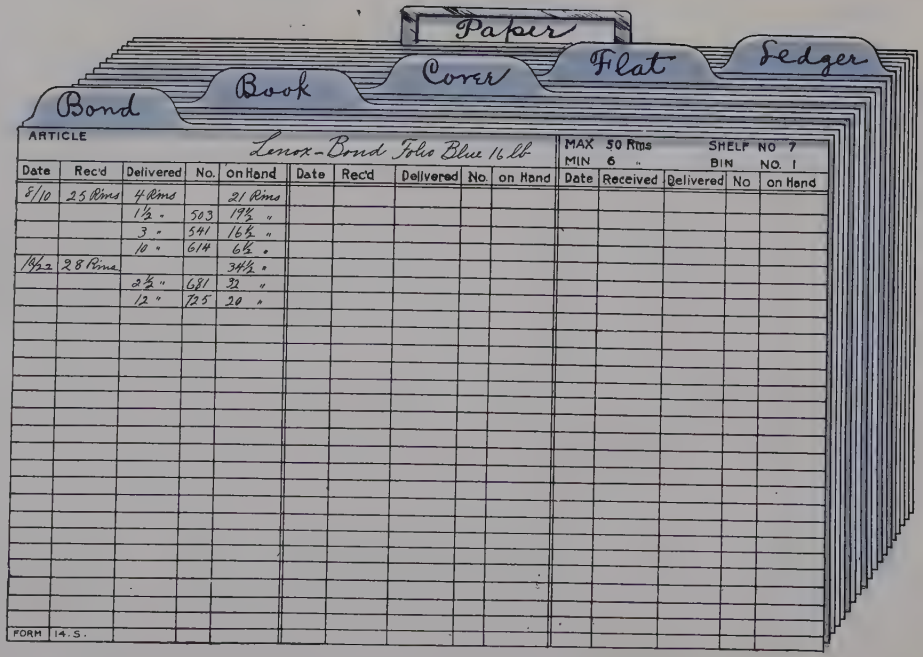
2. **Purchases, Manufacturing, and Sales.**—(*a*) All invoices for purchases should be initialed by the receiving clerk, by the purchasing agent, and by the comptroller's department before entry into the purchase book.

(*b*) If the concern is engaged in manufacturing, a proper system of stock and cost accounts should be provided which will work harmoniously with, directly into, and be controlled by the financial books, and a thoroughly efficient plan of calculating and paying wages introduced, by which the Wages Book is made up by one clerk, checked by another, and the money paid by a third. Inasmuch as a large percentage of the defalcations in manufacturing concerns has its origin in the payment of wages, too much emphasis can not be placed upon this point.

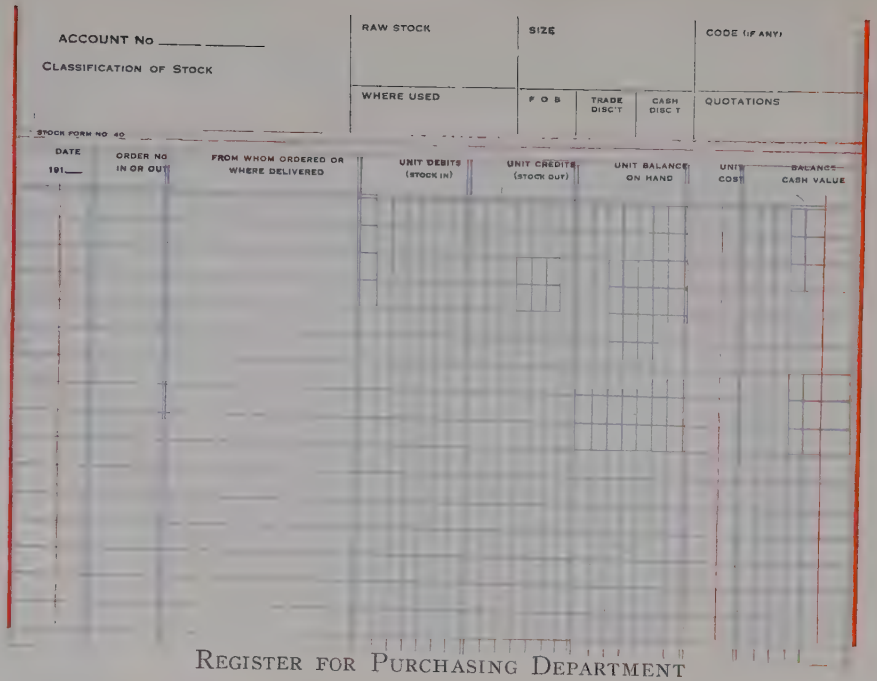
(*c*) The extensions of all sales should be checked by the comptroller's department, compared with the Order

RAILROAD TRADE-MARKS

SHOWING THE GENERAL USE OF CONVENTIONALIZED PATTERNS AMONG RAILROADS BOTH EAST AND WEST. (SEE TRADE-MARKS, PAGE 962.)



STOCK RECORD CARDS



REGISTER FOR PURCHASING DEPARTMENT

A COMPLETE RECORD OF BUYING TRANSACTIONS ARRANGED IN LOOSE-LEAF FORM.

Original Cost $50.00
Freight & Installation
Annual Int. 10%
Total Cost $50.00
In or Out of use In
Estimated Life 10 yrs. Depreciation

INVENTORY RECORD

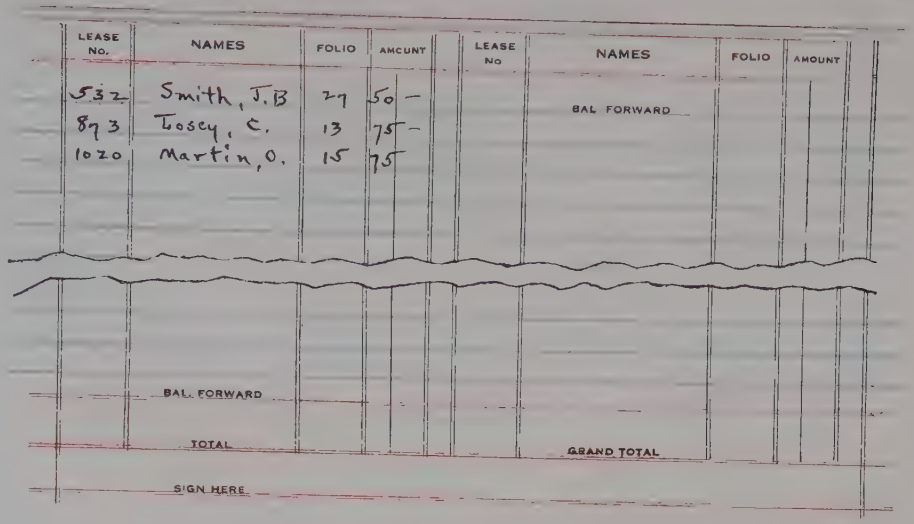
REAL ESTATE & EQUIPMENT

Name Roller Top Desk
Serial No. 8960 Our No. 55
Size 5' 6"
Date of Purchase October 28, 1908
Purchased from Dealer
Maker Shaw Walker Co.

YEAR	DATE	LOCATION BUILDING	LOCATION Section	LOCATION DEPT.	Tax No.	GENERAL DESCRIPTION	ADDITIONS	DEPRECIATION %	DEPRECIATION AMOUNT	REPAIRS	NET VALUE
1908	12/31	No. 1	A	29							5 0 00
1909	12/31	No. 2	B	34				10	5 00		4 5 00

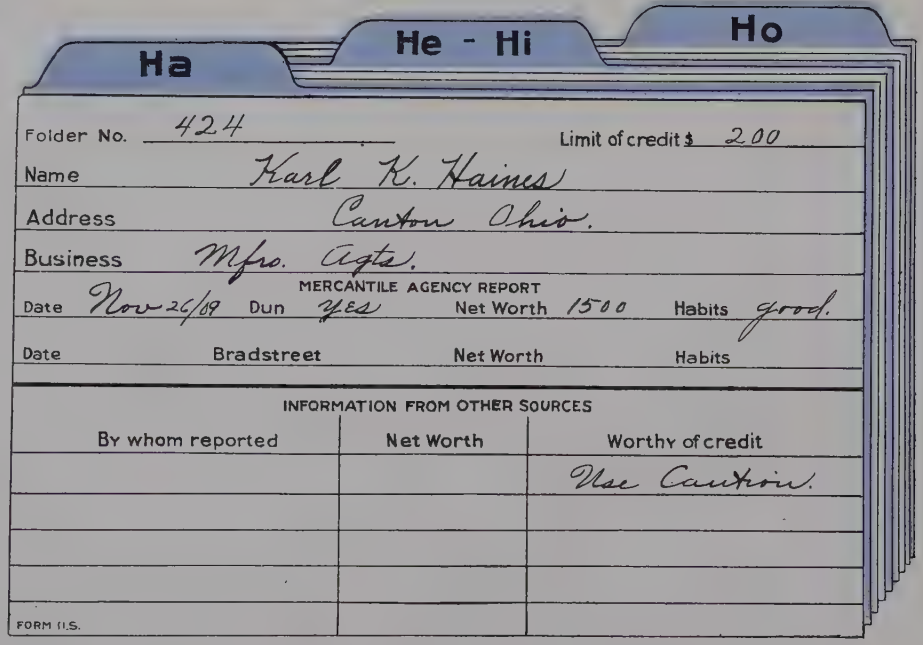
Inventory Record

This form illustrates the important item of depreciation. See Depreciation, page 825 A desk valued at $50 and with an estimated life of ten years depreciates at the rate of $5 a year.



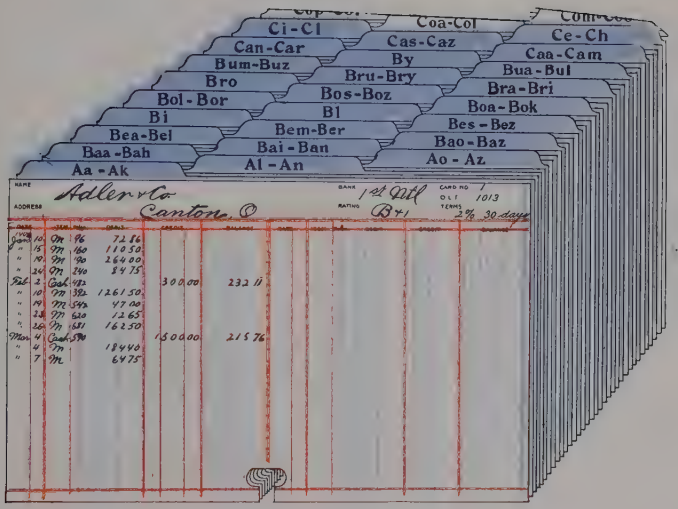
Collection Register

Arranged in loose-leaf form, as a running account by months. May be used in connection with the collection cards.



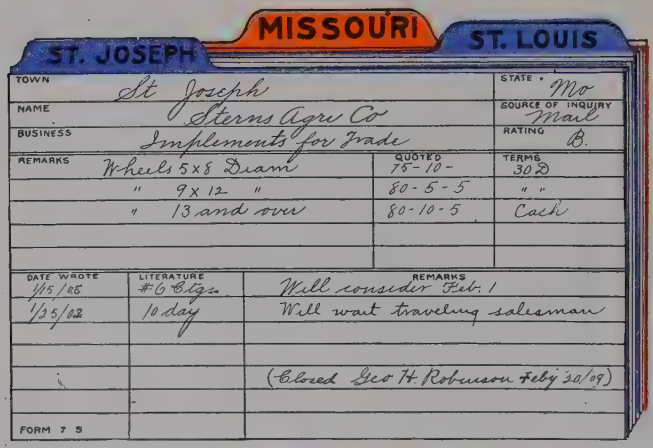
Credit Cards

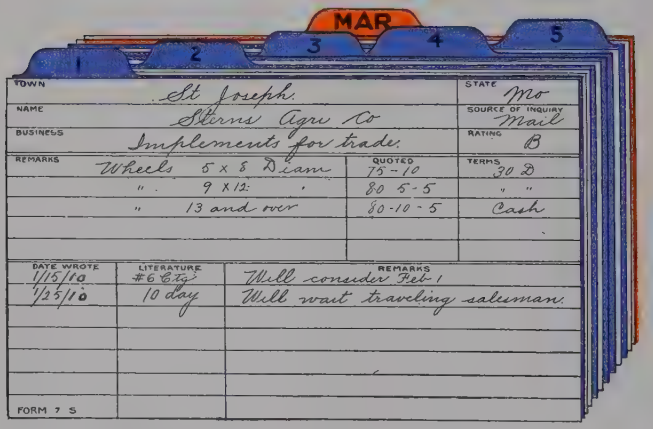
A READY INDEX TO THE FINANCIAL STANDING OF ANY CUSTOMER OR PROSPECTIVE BUYER WITHOUT THE NECESSITY OF REFERRING TO MORE ELABORATE REPORTS AND CORRESPONDENCE FILES



Card Ledger

These ledgers are usually indexed alphabetically. As above shown, each account has its own card or series of cards, and if desired the name can appear upon the tab in place of the alphabetical index. Such cards when filled can be removed to a permanent ledger. The regular size of the card is 3 by 5 inches. Blank cards can be inserted wherever desired, lending great flexibility to the system.

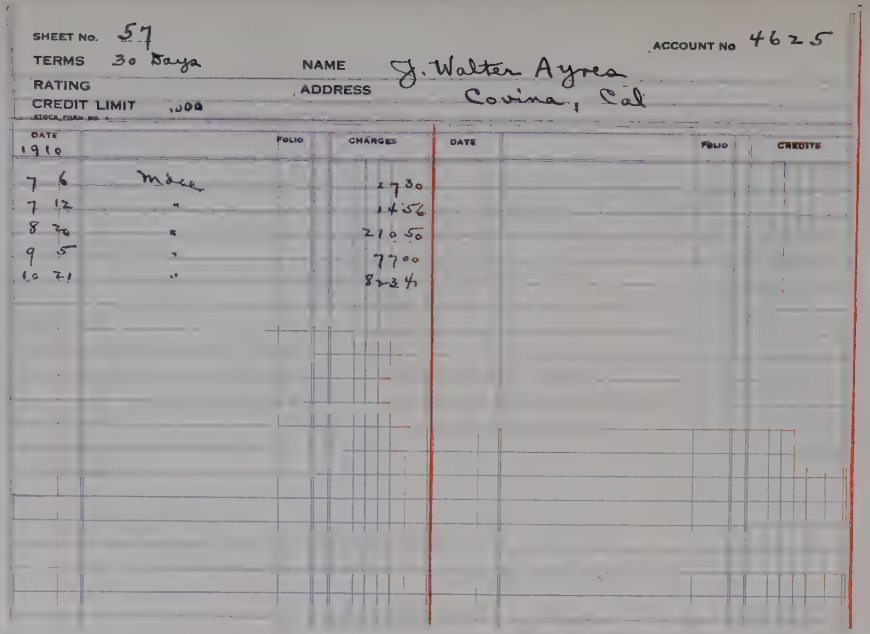




Card Indexes for Follow-Up Systems

These indexes are arranged either by States or by dates, as shown above.

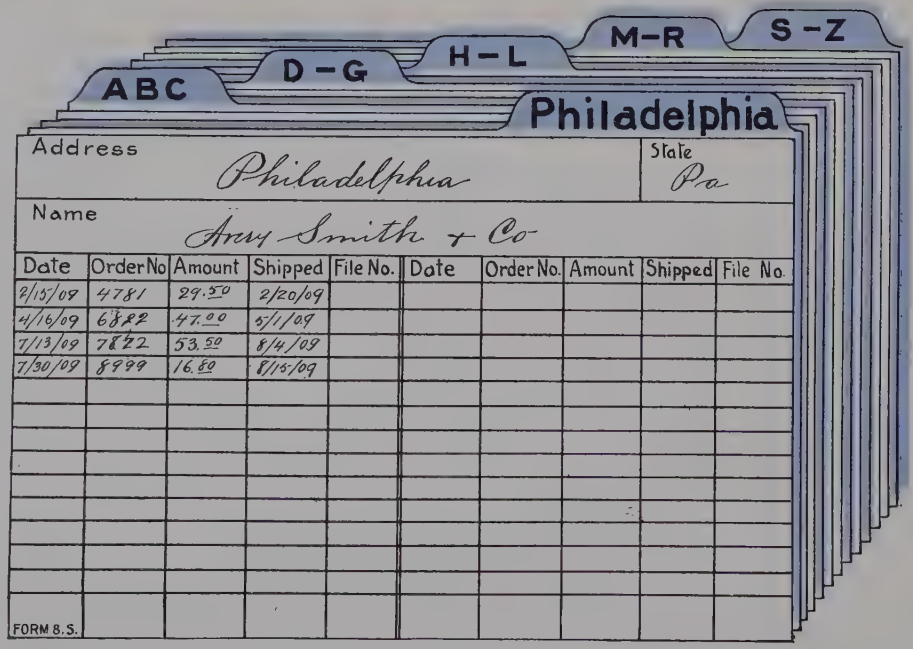
They are of great service in keeping track of prospective customers. Size 3 by 5 inches.


SHEET No. 57
TERMS 30 Days
NAME J. Walter Ayres
ACCOUNT No 4625
RATING
ADDRESS Covina, Cal
CREDIT LIMIT 500
STOCK FORM NO. 1

DATE 1910		FOLIO	CHARGES	DATE	FOLIO	CREDITS
7 6	Mdse		2730			
7 12	"		1456			
8 26	"		2150			
9 5	"		7700			
10 21	"		8234			

Combined Journal and Ledger

A convenient loose-leaf form which summarizes on one page the essential facts of an account



CUSTOMERS' LIST CARDS

THE VALUE OF THIS CARD IS AT ONCE SEEN IN INSTANCES WHERE CONCERNS ARE ASKED TO DUPLICATE PREVIOUS ORDERS. SIZE OF CARD 3 BY 5 INCHES.

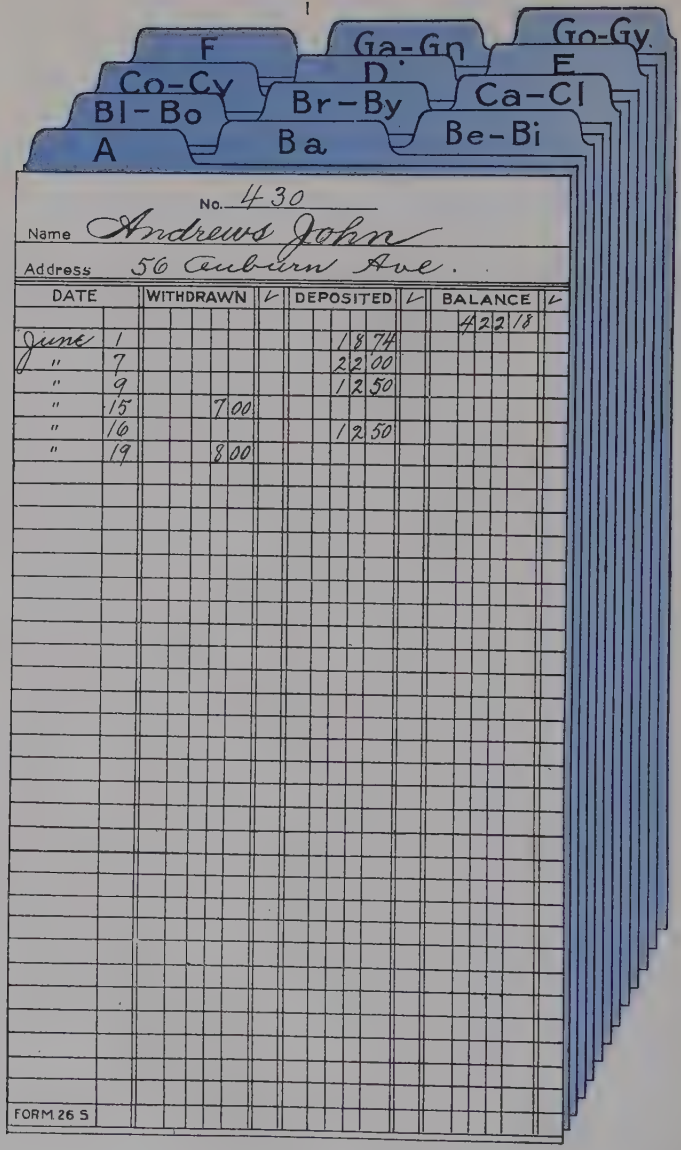
INVOICE REGISTER FOR MONTH OF December, 1910 SHEET NO. 85

STOCK FORM NO. 86

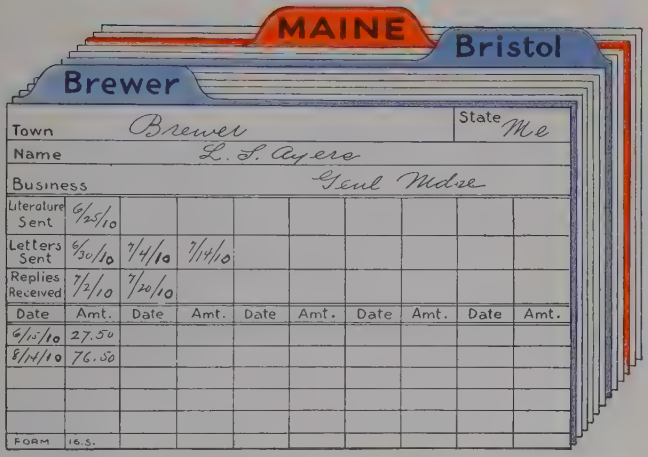
DATE	NO. OF INVOICE	NAME	DATE	SENT TO DEPARTMENT FOR CHECKING	AMOUNT OF INVOICE	CHECKED WITH P O	READY FOR PAYMENT	DATE PAID	CHECK NO.
	00								
Dec 1	1	J. B. Brown	Nov 20		47.50				
" 3	2	"	" 22		66				
" 3	3	Chas Williams	" 22		12424				
" 7	4	M. M. Karnes	" 29		3762				
" 8	5	"	Dec 1		50				
" 9	6	"	" 2		7240				
	7								
	8								
	9								
	10								
	11								
	12								
	13								
	14								
	15								
	16								
	17								
	18								

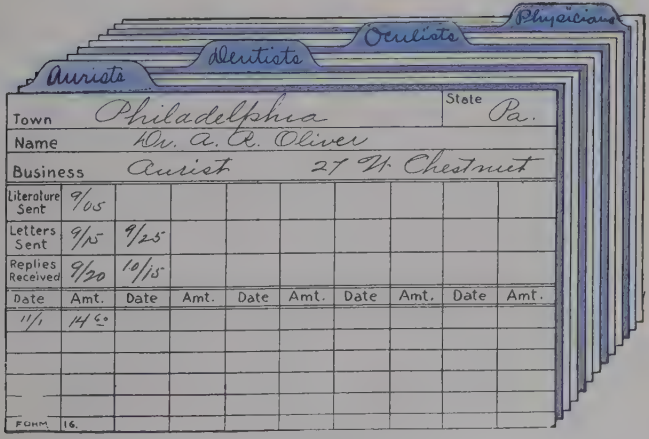
INVOICE REGISTER

ONE OF THE LATEST FORMS, ARRANGED FOR LOOSE-LEAF SYSTEM.



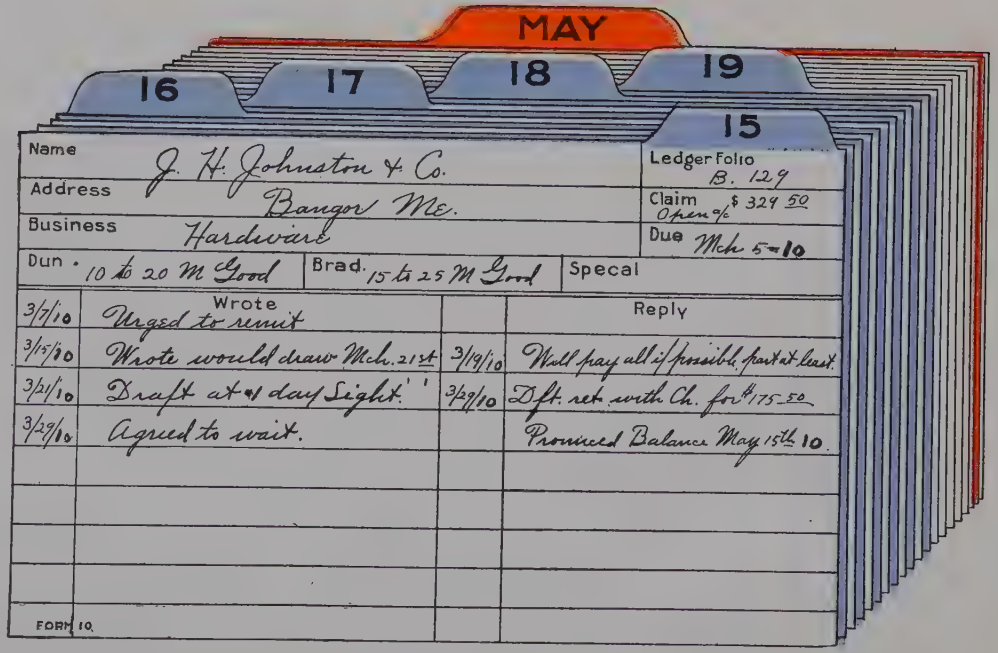
SAVINGS BANK CARD LEDGER





Mail-Order Cards

The success of a mail-order system largely depends upon the ease and facility with which records are kept. These cards are 3 by 5 inches, and may be tabbed either by States or corporations.



COLLECTION CARDS

INTENDED FOR THE PURPOSE OF FOLLOWING UP DELINQUENT ACCOUNTS.

INVENTORY 19 Page

Sheet No. Class Priced by

Called by Department Extended by

Entered by Location Examined by

Check	Quantity	DESCRIPTION	Price	EXTENSIONS

STOCK-TAKING CARD

SHOWING METHODS OF RECORDING, PRICING, CHECKING, ETC.

ORDER REGISTER.

No.	NAME	QUAN	ARTICLE	AGENTS NO.	DATE REC'D	DATE SHP'D	AMOUNT
00							
1	V. Brogan	1 Doz	I X L Hammers	14	12/4	12/6	17 60
2	O. S. Straus	2 Doz	PX Saws	17	12/6	12/6	24 —
3	R. M. Brown	5 Kgs	10 P. Nails	19	12/6	12/7	14 30
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							

ORDER REGISTER

A DESIRABLE RECORD FORM FOR USE IN LOOSE-LEAF LEDGER.

Book, and with actual deliveries, per the records of the shipping department.

(*d*) Claims for returns and allowances should bear the authorization of the Complaint Department; the return of the goods should be vouched for by the Receiving Department; and, each item of the Returned Goods Register should be initialed by a member of the firm or the comptroller.

3. **The Ledgers.**—(*a*) Each separate ledger should be made self-balancing, and the books of original entry so ruled that monthly totals only of the different ledger columns need be posted to the controlling accounts of the Private Ledger.

(*b*) Where the individual ledgers are numerous the clerks in charge should be frequently changed around, so that if there is any irregularity it will be impossible for it to continue undetected without implicating the entire staff.

(*c*) The ledger containing the controlling accounts should be supplied with lock and key and remain locked when not in use. All entries made in this book should be written by the comptroller or a confidential employee having no direct connection with the receipt or payment of cash, other ledgers or books of original entry.

(*d*) Loose-leaf ledgers are nowadays being extensively used. The system carries with it a great many advantages, and also some disadvantages, which may, however, be minimized by a rigid enforcement of the following rules:

1. The keys should be under the sole control of some responsible official who should never under any circumstances hand them over, even temporarily, to any ledger clerk.

2. The stock of loose sheets should be kept by the clerk in charge of the stationery, and no sheets should be given out by him except in exchange for a requisition order, properly made out and approved by a designated authority.

3. The sheets should be ruled and printed in some way

to render them different from the stock article supplied by stationers.

4. Each ledger clerk requiring new sheets should, after having filled in a properly approved requisition order, bring the sheets thus obtained to the key-holding official, who should unlock the ledger, see that the sheets are properly inserted and relock the ledger.

5. No sheets should be taken out of any ledger until after the matter contained in such sheets has been passed on by the comptroller.

6. The key-holding official should initial all sheets taken out of the ledgers, and cause same to be filed away in a transfer binder, also under lock and key.

(*e*) A trial balance of all ledgers should be taken off once a month, at which time a list of overdue customers' accounts should be submitted to the comptroller.

4. **In General.**—(*a*) *Statements* should be sent out monthly to customers, and where possible it is desirable that these be made out and checked by clerks not concerned in writing up the ledgers. The importance of these statements will be readily conceded when it is remembered that in addition to acting as an intimation that a remittance is expected, they will also bring forward an immediate protest from customers who have not been given credit for cash already paid.

(*b*) *Journal* entries should bear the approval of some responsible official, as it is through this channel that fraud frequently creeps in. Notes receivable should be scrutinized carefully when received, and the actual notes in hand should frequently be totaled and agreed with the ledger balance. No amounts should be written off to Bad Debts Account without being first sanctioned by some responsible official who should initial the Journal entry dealing with the matter; many firms adopt the principle of opening a Bad Debt Ledger, and as each bad debt is written off, an account is opened in the Bad Debt Ledger. This book forms no part of the double-entry system, being purely a memorandum book, and is only useful to show the ultimate loss incurred on each bad debt,

as all dividends received on such accounts are entered on the Bad Debt Ledger as well as on the general books.

(*c*) Every employee should be required to take a vacation once a year.

(*d*) All exceptional transactions should be reported to the board at the next meeting for approval or further instructions.

Conclusion.—Not only will a proper system of internal check frequently obviate the necessity of a detailed audit by a professional accountant, but it also possesses the advantage of causing any irregularities to be corrected at once. No such system, however, can prove a success unless the chief officials of the business take an intelligent interest in its operation and see that each step is systematically carried out. In consequence, it is the duty of the heads of firms, where a comptroller is not employed, occasionally to supervise the cash, examine the balances, to be present at the payment of wages, and to examine carefully the main branches of the business in order that they may be in a position to introduce improvements wherever possible.

IX

TAXATION AND INSURANCE

1. Forms of Taxation

Distinction Between Taxes—Classification—Direct Taxes—Indirect Taxes—Power to Tax—Federal Taxation—State Taxation—Double Taxation—Purposes—Who and What may be Taxed—Place of Taxation—Three Essentials—Schedules—Taxes Constitute a Lien—Discounts—Exceptions.

2. Insurance

Kinds of Insurance—Origin—The Contract—Life Insurance Contracts—Insurable Interest—Causes of Loss—Insurance Companies—Agents and Brokers—Fire Insurance—Irregularities—Keeping Down Fire Insurance Costs—Defects which Increase Rates—Necessary Duties of Agents—Marine Insurance—Accident Insurance—Fidelity and Guaranty Insurance—Other Forms.

IX

TAXATION AND INSURANCE

1. Forms of Taxation

TAXES may be defined as a proportionate burden or charge imposed by a person or persons of authority upon the goods and chattels of those who are subject to the laws of that community. More specifically, taxes and amounts are levied on persons and their property with the object in view of providing a fund for public purposes.

In a definition propounded by one authority, the purpose of taxation is stated to be "for the support of the Government," but taxes are levied for many purposes, which, although of a public nature, have no part in what might be termed Government support.

Public purposes, on the other hand, are such as contribute to the general advantage and prosperity of the public. The term tax, or taxes, has at one time or another been applied to nearly every charge placed on persons, property, or business, for the support of the Government and for the production of a revenue for public purposes. In the latter case the term seems to have been used interchangeably with duty, import, or excise.

Distinction between Taxes.—In the cities, to-day, we speak of a water tax; but such a tax is in reality but a price paid for a certain commodity which the city supplies, and which no one is compelled to purchase unless he so desires. A distinction also exists between a tax and a special assessment for local improvements, inasmuch as a general tax, unlike an assessment, is based on value, and must conform to the constitutional rule of uni-

formity. An excise duty is not properly a tax; for, while a tax is paid by each one according to the value of his property, an excise is a fixed charge on certain articles, the amount of the same being in no way affected by the value of the property owned by the person upon whom it is levied. Duties are synonymous with imposts and are levied on goods imported into or exported from a country, charges paid by ships for privileges of using improved streams or canals, even if the same be in the hands of the Government, and can not be considered a tax but are simply toll charges for the use of such improvements. A tax is the imposition of a sovereign authority, but a toll is the demand of a proprietor.

Classification.—In theory, taxes are not considered to be a mere arbitrary demand of a Government upon the people, but rather an equitable return from the people for the benefits of protection to life, liberty, and property which Government affords.

As regards varieties of taxes, one classification may be made, based upon the extent of the district over which the tax is imposed. A general tax, or tax of the first class, is imposed on the entire State, and has for its object the raising of a revenue for public purposes in general. If the tax is confined to one locality and the amount so procured is to be expended for the benefit of the locality alone, it is termed a local or special tax.

The method of imposing the tax furnishes a basis for a second classification into direct and indirect taxes which may be defined as follows:

Direct Taxes.—Direct taxes are those for which the demand is made directly to each person. They may be further subdivided into capita tax, which is levied upon the property only, and income tax, which has an effect upon both persons and property. In contradistinction to the ad valorem tax, in which the amount is some certain percentage of the value of the article, we find specific taxes which are levied on certain articles without any regard to their value.

Indirect Taxes.—Indirect duties embrace such charges as are levied upon goods in the form of export, import, or excise duties, before the goods become the property of the consumer. In addition to the classification already noted, taxes receive special names depending upon the subject upon which they are levied. Property taxes signify such as are imposed upon visible and tangible property capable of being assessed. Capitation taxes are a certain amount imposed per head without regard to the property possessions of the person. Income taxes may be imposed upon wages, commissions, etc., derived from certain personal services or from dividends on stocks, etc. Succession taxes are the charge on the right of a person to receive property by inheritance, or as a legacy from another. Privilege taxes are imposed for the privilege of being permitted to engage in some certain occupation. Corporation taxes, taxes on commodities and luxuries, taxes on exports, taxes on imports, and taxes on amusements, as their names imply, cover special things or pursuits. Finally, according to the manner of payment, taxes may be money taxes or taxes in kind.

Power to Tax.—The power to impose taxes is one of the prerogatives of sovereignty and it is essential to the existence of a Government.

The State has unlimited powers in all that concerns taxation except where held in check by the provisions of the Federal Constitution. No limit can be set to the needs of the public, and in consequence the power to tax is unlimited, except in the above respect. Otherwise the power to tax in any degree is in the hands of those who are in position to use the power. The extent of territory over which taxation may be imposed is confined to the actual boundaries of that territory. However, every person, property or business, whether native or foreign, within those boundaries, is alike subject to taxation, except in certain cases where foreigners may be exempted by treaty regulations. In one way the power of taxation resembles what is known as the right of eminent domain. Both are attributes of sovereignty, and both are exercises of the

power of sovereignty to take private property for public use. A clear distinction, however, exists between the two. It is the object of taxation to lay upon each person only his proportionate share of the tax; but in the exercise of the right of eminent domain a person may be called upon to contribute more than his share, in which event special compensation must be made. Police power, a third prerogative of sovereignty, has at times been confused with the power of taxation. Both, of course, are for the promotion of the public welfare, but taxation is concerned with the creation of a revenue, while regulation is the ultimate object of the power of police.

Federal Taxation.—The Congress of the United States is invested by the Constitution with the greatest authority to impose and collect taxes, with the restriction, however, that no tax or duty shall be laid on any article exported from any State.

The Constitution also provides that commerce shall not be so regulated that preference is given to one State over another, and that no State shall impose import duties without the consent of Congress.

Regarding export duties, it becomes necessary to decide the exact time that goods for export actually become exports and cease to be part of the taxable property of the State. This is now held to be the moment when the goods have actually started in the course of transportation. On the other hand, imports are classed as imports so long as they remain in the original packages in possession of the importer, and they are not subject to any other tax than the import duty on them. But as the packages are broken, or the ownership passes to another, they become a part of the taxable property in the State.

State Taxation.—The constitutions of the various States also contain restrictions designed for the purpose of securing uniformity in the imposition of taxes, in order that the taxpayer may be protected against any unjust or biased action by the legislature. However, if the tax is for a local purpose, the rules may be modified provided

the tax is laid uniformly over that part of the State concerned. In order that the taxes should be imposed uniformly, a systematic classification of property is essential. In the majority of the States taxation is based on valuation, and where exact valuation is impossible a reasonably correct estimate will suffice.

Double Taxation.—We now come to what is known as double taxation, which can be best explained by example. For instance, a legislature has the power to tax a debtor for the full value of the property in his possession, without taking into consideration the decrease in his property which would ensue when his debts were discharged, while at the same time the creditor is taxed on what is due him. Mortgages are also subject to taxation at their face value, as well as the property upon which they are secured. In the same way the relationship between a bank and a depositor, which is that of a debtor and creditor, renders both liable to taxation for the amount of deposit, although in practise banks are usually taxed only on their capital and surplus. Regarding the taxation of a creditor for the amounts due him, one authority states that it would be difficult to give one good reason why a man who sells his store and goods, or his farm and stock, and invests his money in securities, ought not to bear his just proportion of the public burdens; and it can not be denied that if he does not do so there is an unjust discrimination in favor of a class that is already strong. He is protected by the laws in his person, and their aid may be invoked at any time to enforce payment of his demands. The courts are open for his benefit, just as they were when his property consisted of a store or a farm.

Purposes.—The object of taxation has already been stated to be the creation of a revenue for the use of the Government, in promoting the general welfare of the country. It is essential that the proceeds of duties, customs, taxes, etc., be devoted exclusively to the public use, for in the event that any of it is diverted into private

channels the provisions of the Constitution will fail of observance. The decision of the question of "public use" is often perplexing.

The judicious expenditure of the revenue of the country is a problem of considerable magnitude, and, while the governing element should avoid prodigality, good statesmanship signifies the ability to look into the future and determine the action most conducive to the well-being of the country, both in the present and time to come. Whether a purpose is public or private is frequently a matter of some difficulty to determine. The mere fact that the public may benefit to some extent by the fostering of a private enterprise does not necessarily signify that such enterprise is a legitimate object for Government support. Where an object is partly public and partly private in its character, it must be considered wholly private unless that part which is actually private can be isolated and severed. The initial decision in a question of this sort is in the hands of the legislature; but since the requirement that an object must be of a public character before it can have taxes imposed for its benefit is in reality a limitation upon the power of the legislature, the final decision must be given by the courts, which must determine whether or not the legislature has exceeded its constitutional powers. Among the purposes which have been held to be public may be mentioned: Agricultural societies; charities in aid of unfortunate classes; the support of the poor and insane poor; the drainage, irrigation, or reclamation of land; fire departments; public schools; pensions and bounties; public health; public works, etc. These are but a few of the objects upon which revenue is legitimately expended, but will indicate what the character of an institution worthy of public support should be.

Who and What may be Taxed.—In general, every person and all property may be taxed unless otherwise declared or implied in the constitution. Not having the right to vote does not relieve a person from taxation. An alien who may own property, or be a resident of any

State, is subject to the same scale of taxes as the citizen. So also is the woman who owns property.

In the imposition of poll-taxes the States do not agree. Two of the States in their constitutions declare a poll-tax to be "grievous and oppressive," but others again provide for a poll-tax, and in some cases designate the purpose to which the proceeds are to be applied.

As a general rule, laws governing the imposition of taxes are strictly construed, but not with the same degree of strictness as penal laws, and should it be possible to place more than one construction on any law, the most reasonable is followed.

Regarding the taxability of particular kinds of property, a good deal depends upon the State laws, which vary considerably. In New York the good-will of a business is not taxable under the general tax law, but under the corporation franchise tax law the good-will is held to increase the value of the shares and is taxed with the franchise. In general, all personal property within the jurisdiction of the State is taxable, regardless of the place of residence of the owner, and credits, debts, and securities, being considered under the head of personal property, are rendered taxable. Similarly considered are money deposited in a bank, mortgages, State and municipal banks, investments in federal securities, patents and copyrights, etc. Real property in the eyes of the law means land with its fixtures and accessories, which is capable of description as to boundaries, and conveyable by deed. When several people have different interests in a property, each may be taxed according to his interest. All buildings, improvements, etc., on the land are considered to be a part of it, and are also taxable. Easements, fixtures, and leaseholds may be taxed, although it has been held that a license to "go on land and sever and remove the products thereof" does not constitute a taxable interest. Other taxable interests are incomes, occupations, and privileges. Taxes on occupations and privileges are of the nature of a license fee, which must be paid before a person can engage in such occupation or be benefited by such privilege.

Place of Taxation.—As a general rule, property of any sort whatever is taxable where it is located at the time of assessment. Real property may be transferred from one jurisdiction to another through a change in country lines, but the change if made subsequent to the assessment does not change its taxable location. Personal property ordinarily follows the person and is taxable where the owner resides, but the modern tendency, influenced by the law that everything within the State should pay taxes to the State, is to levy upon personal property wherever it is located.

Three Essentials.—For any tax there are three essentials. First, the total amount to be levied must be ascertained or determined. Second, the legal imposition of the amount determined must be levied upon the taxpayers as a whole. Third, there must be an apportionment of the total amount among the individual taxpayers so that each may contribute his proper share. The first two essentials are in the hands of the legislatures, but the third is controlled by public officers or boards acting under statutory instructions.

One of the first steps of the assessors, as the officials are termed, is to ascertain the value of all taxable property in their jurisdiction, in order to apportion the tax correctly. For this purpose, every property holder is called upon to fill out a schedule showing his various possessions, and frequently their valuation. It is, however, in the power of the assessors to revise this valuation as they see fit. When the roll or tax list is completed, it contains the names of all the property owners, a description of all taxable property, the value of the property, and the amount of the tax. The first two items are obtained from the schedule of the owner, and the last two are agreed upon or calculated by the assessors.

Schedules.—The return of a fraudulent schedule by a taxpayer, or the omitting to return any, is generally a penal or criminal offense, but where errors or omissions have been made in good faith and without intention to

defraud, the same have been considered excusable. In the schedules which are furnished by the Government a certain classification is made of the property which the taxpayer is required to follow. All descriptions of articles should be sufficiently complete so that the owner may readily identify them as his own. All property is supposed to be valued at a fair cash value, but it is in the power of the legislature to place the assessed value lower than the actual value, provided such reduction is uniformly made. When the work of the assessor is completed and the taxpayer has been notified as to the valuation set against his belongings, and the amount of taxes he is called upon to pay, if he is dissatisfied and possesses sufficient grounds for dissatisfaction, he may have his taxes examined and possibly reduced by appealing to the proper authorities, usually a board of equalization and review.

Taxes Constitute a Lien.—A levy and assessment of taxes constitute a lien on the property assessed, but wholly under statutory law, and legislatures have the power to give a tax lien priority over all other claims. The lien may be terminated by the payment of taxes at the proper time and place, or by abandonment on the part of the power imposing the tax. A tax lien, however, is not discharged, if the property changes owners, and continues to attach to the property until discharged in same prescribed manner. Before property is sold for taxes, the owner is always given an opportunity voluntarily to pay them. The payment must be absolute and unconditional, and no arrangement can be effected between the taxpayer and the collector, whereby the taxpayer may fulfil his obligations, other than by the payment of the claim against him.

Discounts.—A discount is usually allowed on all taxes paid before a certain day. After that day is past, interest is usually added to the original amount. But this is more in the nature of a penalty to induce prompt payment. If the taxes are allowed to run along without be-

ing paid, the delinquent's name is placed upon a list, which is advertised, and if the payment is not forthcoming, orders are placed in the hands of the Sheriff or proper authority to seize and dispose of sufficient of the delinquent's property to satisfy the claims against him. The penalty of fine and imprisonment has been imposed at times for the non-payment of taxes, particularly poll-taxes, and engaging in a business requiring a license without paying the prescribed fee or tax is also generally considered a misdemeanor. Property sold to pay taxes may be redeemed if steps are taken in that direction within a certain period after the sale.

Exceptions.—Universal taxation is the rule, exemption the exception, and the power to grant exemption is wholly in the hands of the governing body, in the absence of any constitutional restriction to the contrary. As a consequence, practically all exemptions are the result of statutory laws, and the laws of each State vary considerably in this regard. Religious institutions, literary and scientific institutions, educational institutions, charitable institutions, cemeteries, certain manufactures, mines, household furniture, mechanic's tools, fire engines, growing crops, and savings institutions are among the properties usually considered exempt.

Corporations, railroads, etc., may receive legislative favors of the same sort, but in this as in all other exemptions, the government does not relinquish completely, but merely for a time, its sovereign power of taxation.

2. Insurance

The term insurance in its widest sense signifies a form of business transaction whereby one party, for a specified consideration, agrees to pay another a certain amount of money, or its equivalent, in the event of his suffering pecuniary loss from some specific cause.

The party or concern agreeing to indemnify the other in case of loss is usually termed the insurer or underwriter; the one to whom the indemnity is paid, the in-

sured or assured. The consideration given by the insured to the insurer is known as the premium; the written contract is termed a policy; and the events or happenings against which protection is sought, perils or risks.

Kinds of Insurance.—There are almost as many kinds of insurance as there are things which are susceptible of injury or destruction, and the dangers which beset them. Indemnities are provided against the risk of loss from a person's death. Protection may also be secured against loss from natural causes, as fire, storms, earthquakes, and the perils of the sea. The possible dishonesty of employees, the failure of title to property, or the insolvency of debtors, may also be provided against. Still other forms of insurance are known as accident insurance, liability insurance, use and occupancy insurance, and at least one case is known where a policy was issued on the election of a certain political candidate to office.

Origin.—The origin of insurance dates back to comparatively early times, and is found in what is known as the law maritime, a branch of the law merchant, or code by which all business transactions were governed. Among the ancient Rhodians, the custom prevailed in the shipping trade of making both ship and cargo stand part of the loss, if either had to be sacrificed to save the other.

Here we see a division of the loss, and from this it was but a brief step to a division of the risk, first between persons interested in the same business venture, and later between the shipping merchants and the ship-owners as a class. The mutual insurance contracts of this period are the earliest of which there are authentic records, and date back at least to the tenth century. In some European countries, such contracts were obligatory by law, and records show where in the fourteenth century every merchant and ship-owner in Lisbon and Oporto was required to pay a sum equivalent to two per cent of the profits on each voyage into a fund, out of which losses were paid as they occurred. In later years persons familiar with the perils of navigation and possessed of

capital undertook to shoulder the responsibility for all losses sustained at sea in return for the payment of a certain amount termed a premium. This method of insurance is supposed to have been introduced about the beginning of the fourteenth century, and is popularly considered to have been brought into England by the merchants of Lombardy.

From the insurance of property against loss at sea to protecting against loss from damage or destruction on land as a result of fire or other cause was another brief step. Life and accident insurance, on the other hand, are the product of a much later date, and differ in many important respects from property insurance.

The Contract.—An insurance contract is aleatory in its character, that is, it is one which is dependent upon some uncertain contingency. It also involves a risk, and in this respect somewhat resembles a wager, but is altogether different from a wager in the respect that a risk such as provided for by insurance is always present, while, on the other hand, a risk which is the result of a wager has no existence until the wager is made. For example, suppose a man owns a house. Whether he insures the house or not, the danger of its being destroyed by fire is always present, but there is not the slightest likelihood of the house passing out of his possession as the result of a wager, unless he of his own volition should be a party to the wager.

A considerable difference also exists between the nature of the risk in property and life insurance. In the first case the loss may or may not occur, and it may be total or partial if it does occur; but in the second case, we know the event insured against is certain to happen, and when it does a total loss or death is the result. In life insurance the date of the happening is the only element of uncertainty. The object of insuring property is to obtain indemnity in case of loss, and to indemnify a person for loss does not mean the payment of more than the property was actually worth. In fact, except under very special conditions, a company will not insure property

for its full value. If such were customary, the temptation offered to unscrupulous persons to destroy their own property would be very great, and the consequent litigation would be enormous. As it is, it is no uncommon thing for persons who wish to obtain quick profit to destroy property and even life in order to obtain the insurance.

When such is proved the insurance contract is rendered of no account, as the laws, supported by public policy, forbid the enforcement of a contract by which any one may derive a profit from the occurrence of the event insured against. The insured should have an interest in the preservation of the property rather than in its destruction. Under such conditions, the liability of the insurer, and the amount which the insured may receive, is such an amount as will reimburse the insured for the actual loss sustained, provided the same does not exceed the amount mentioned in the policy.

Life Insurance Contracts.—Life insurance is not a contract of indemnity, but rather an agreement to pay a certain sum on the death of the insured, or at some specified time, in consideration of the payment of a certain premium or premiums.

Insurance on property is a personal contract, and if a person should sell to another the property upon which he carried insurance, the original owner's policy would be of no use to the purchaser unless assigned to him with the consent of the insurance company. In the ordinary course of events, if no such move were made, the contract would automatically become void, for the reason that the person who took out the policy could no longer suffer loss by its destruction, and consequently could have no insurable interest in it.

Insurable Interest.—This brings us to the question of insurable interest, which is a feature of comparatively modern introduction. It simply means that a person must be in position where he will suffer actual loss from the damage or destruction of property, or loss of life,

before he can obtain a policy on said property or life. Insurance is a legitimate line of business and is for the protection of legitimate business, and that the insured should have an interest of some sort in the property or life in question is essential, in order to prevent insurance from being degraded into mere speculation; and in addition, the condition of affairs under which a person is interested in the destruction of life or property, rather than its preservation, is demoralizing of itself.

Causes of Loss.—Regarding the causes of property loss in general, they are as varied as the dangers to which property may be exposed. If the loss is due to the negligence of the insured or his agents, it must be paid by the insurer, provided the negligence was not fraudulent in its character. For example, if a person discovered a fire in his house, so slight that he might readily extinguish it, but failed to do so intentionally, and the facts were proved, he could not compel the insurance company to make good the loss.

An insurance contract is like any other contract in this respect, that in order to be binding, absolute honesty is necessary all the way through. Prevarications, fraudulent concealments, or the absence of any of the elements or terms required by law are any or all sufficient to render all insurance policies void.

Insurance Companies.—In the absence of any law to the contrary, any person not legally incapacitated may enter into a contract to compensate another against a loss from a specified cause, for a consideration; and in former years a great deal of this kind of insurance was done by individuals or partnership concerns. At the present day, however, it is almost exclusively in the hands of incorporated companies, and in some States it is confined to such companies.

In general, insurance companies may be classed as stock, mutual, and mixed companies. The stock insurance company is made up of a number of stockholders who contribute the capital out of which the losses may be paid,

and who receive the benefit of all the profits of the undertaking, derived from the premiums of the insured, or investments of surplus capital. A stockholder in an insurance company has no right to share in the profits of the concern except as they are distributed in the form of dividends, or when a division is made on the winding up of the company.

In a mutual insurance company the members are both insurers and insured. A fund for the payment of losses is provided by the premiums which each pay in, and the profits are shared by the members in proportion to their interests. Mutual companies were originally designed to furnish insurance at cheap rates, and were usually confined to certain localities. In fact, associations of this sort are adapted only to local business.

A mixed company has features in common with both stock and mutual companies, and any one insured in such a company, without any particular statement in the contract to show in which category he is included, will be considered to be insured under the mutual or stock plan according to the nature of his contract.

Agents and Brokers.—The business of insurance companies is secured through two channels—either through agents employed by the company who solicit insurance and attend to the details incident to placing the policy in the hands of the insured, collecting the premiums, etc., or through insurance brokers, who act as middlemen between the insurer and the insured.

The relation of an agent to the company is altogether different from that of the broker. The agents are invested with authority and assume responsibilities not conferred upon or assumed by brokers. Their efforts are directed toward securing business for the company alone which employs them, and they are not supposed to solicit insurance for others.

The broker, on the other hand, is the agent of the insured, rather than of the insurer, and within the limits of his employment his actions are binding upon the insured in the same manner as the actions of an agent are

binding upon the insurer. If the broker's duties are completed when the policy is secured, then further communications from the insurer must be brought to the direct notice of the insured.

In many of the States the laws require an insurance broker to secure a license before he is permitted to engage in business, and any contracts entered into with an unlicensed broker for the purpose of securing insurance, where such statutes are in force, are not legal.

Fire Insurance.—Fire insurance, as the term would imply, signifies that form of insurance which is obtained as a protection from loss by fire. It is commonly understood to be concerned only with losses from fire occurring on land; while marine insurance covers loss from the same cause as well as all other perils at sea.

A fire insurance contract is a contract of indemnity, and one of the first requirements in order to obtain such insurance is that the person doing so must have an insurable interest in the property in question, and as a second requirement the utmost good faith is required on the part of the insured.

Fire insurance policies are divided into a number of classes governed by special features which each may possess. Based on the amount to be paid in the event of loss are "open" and "valued" policies. An open policy is one in which the amount of liability is left "open" and is determined according to the condition of affairs after the loss has occurred. The proper amount to be paid is determined by agreement between the parties concerned, or by satisfactory proof of the amount of damage sustained. In a valued policy the amount to be paid in case of loss is specified. It is sometimes difficult to determine from the language of a policy whether it is open or valued, but as a general rule the words "valued at," etc., are almost invariably made use of in a valued policy.

A blanket policy is one which covers several distinct buildings or more than one kind of property, as real and personal.

A floating policy is one by which the insurer becomes

liable for only a certain proportion, the elements of which are constantly changing, as, for instance, the stock in trade of a merchant.

In the earlier fire insurance contracts the actual owners of the property in question were the only persons guaranteed indemnification in the event of loss. In later years, protection has been afforded to others as well, who might have an interest in the preservation of certain property. For example, a commission merchant who expected to profit by the purchase or sale of certain goods has been granted to have an insurable interest in the same.

To notice all the various features and conditions which govern fire insurance is manifestly impossible in the space at command, and it must suffice to say that it behooves any one when entering into a fire insurance contract thoroughly to acquaint himself with the full details of his policy.

Irregularities.—In a great many cases persons have considered themselves protected against the risk of loss by fire, only to find after the fire had done its work that, owing to some limitation in their policy or technical irregularity, their claim for indemnification was of no avail. The blame for such a condition of affairs must be placed at the door of the insured, for, although the policy was prepared by the insurer, the insured, at its inception, had it in his power to accept or reject a policy with which he was dissatisfied.

One of the more recent developments in fire insurance has been the introduction of a standard policy which has been prescribed for use by the legislatures in a number of States, and in others has been voluntarily adopted by the fire insurance companies themselves.

It has for its object the unification and harmonization of the provisions usually found in insurance contracts, so that much of the former dissatisfaction arising from the misinterpretation of the earlier policies may be avoided.

Keeping Down Fire Insurance Costs.—There is one effective, permanent way to reduce the insurance cost—

reduce the fire cost. Much has been written lately of the nation's profligacy in burning up $250,000,000 each year. Reference is also frequently made to our annual per capita loss of $3 and over, as compared with an average loss of thirty-three cents in six European countries. It has been said, "The average American in his reckless individualism has assumed no responsibility for the fire waste, leaving it to the insurance companies to refill their purses by increased premium rates."

It is unnecessary to point out that insurance is but a tax, and that the carelessness of one is the occasion of a greater tax to others, and further that a reduction in the fire cost means a general reduction of this tax. In addition to the reduction in fire cost, which will occur from an awakened sense of individual responsibility, and the inevitable reduction in the general insurance cost, which must follow, the property owner is entitled to some immediate and direct benefit for his efforts and expense in improving his own property.

This he can and does secure by a substantial reduction in the insurance rate. The method of fixing rates in New York, and very generally elsewhere, recognizes desirable features of construction, occupancy, and protection, and fixes a rate accordingly. Mr. W. R. Crane in the "Evening Post," New York, undertakes to explain in some detail the method of computing insurance rates.

Defects Which Increase Rates.—"All dwellings and apartment and tenement houses are divided into general classes recognizing only the broader features of construction and occupancy, and the rates on all buildings of a class are the same, with occasionally penalty charges for unsafe features, such as defective heating apparatus or faulty electric wiring.

"All other buildings and their contents receive individual treatment, that is to say, all mercantile and office buildings, manufacturing establishments, docks, piers, warehouses, churches, theaters, etc., have separate or 'specific' rates for each individual building. A rate is made for the building and generally for each occupant

Before such a rate is fixed, an inspector from the rating organization visits the property and makes a careful inspection of the entire building. From his report the rate is computed on the proper 'schedule' blank.

"It might be well to explain that these schedules are our yardsticks for measuring various classes of properties. Experience gives the fire cost of a general class, and this, for the sake of illustration, I will call the length of our yardstick. This is divided into parts, each representing the different features which contribute to the fire loss of the class. This yardstick is then used to measure the individual buildings of the class and to accurately proportion the insurance premium to each.

"These schedules measure (1) features of building construction, such as walls, roofs, floors, area, height, elevators, stairways, chimneys, etc.; (2) hazards of occupancy and process, which include the number of tenants and operatives; (3) fire appliances, such as sprinklers, chemical engines, buckets, etc.; (4) exposure from surrounding buildings; (5) housekeeping features, such as stove pipes, coal and gas stoves and gas jets, or any unsafe heating or lighting apparatus, loose packing material, broken plaster, benzine, lack of waste cans, untidy floors, etc.

Necessary Duties of Agents.—"The assured may secure from the rating organization a copy of the schedule computation of his rate, and will be furnished full information as to any possible improvement and the reduction in rate therefor. Very generally this information is secured by the broker or agent, in fact is one of his duties.

"The first thing that should receive attention is the charges, if any, for poor housekeeping or faults of management. This includes all the features previously enumerated, such as heating apparatus, waste cans, cleanliness, etc. A short time ago the writer had occasion to average the rate on fifty buildings and found the charges under these housekeeping items amounted to about 12 per cent of the gross rate. Some brokers had been asleep, their clients had wasted some insurance

money, and, worse than all, had jeopardized their own and surrounding property by lack of necessary precautions.

"The next step should be to secure as much credit as possible for fire appliances. Buckets give the largest return for cost. If the insurance premium is large, it is frequently profitable to install automatic alarm service, standpipe, watchman, and clock, and perhaps sprinklers. Recently improvements were recommended that will cost not over $500,000, and which will reduce the insurance cost on a large furniture factory from $20 per $1,000 to $2.60 per $1,000.

"If the broker or agent is enterprising, he will suggest any changes in construction which will lower the rate, such as the correction of skylights, the protection of floor openings, the fireproofing of iron columns, cutting off the boiler-room, separating sections of a plant, providing shutters on exposed windows. If he ranks among the more progressive, he carefully examines the building and all appliances, and makes sure that no charge has been made in error, and that credit has been given for all desirable features.

"The saving in rate secured by a careful scrutiny is frequently considerable. It should be remembered that any changes in occupancy, or the introduction of any new feature which should reduce the insurance rate, can only receive the proper credit when brought to the attention of the rating organization, and this is up to the assured or his representative.

"The duty of the assured consists in maintaining in the highest degree of efficiency the appliances and devices that have been installed, and which have been generously recognized by the insurance companies. Buckets are useless if empty, sprinklers only an ornament if the valves are closed, elevator doors an extravagance if left open. But even more important is the continued vigilance and care which alone is probably worth more than all these appliances. Cooperation between the assured and the insurance companies invariably produces a lower insurance rate, and a more general knowledge of the advan-

tages of such cooperation will undoubtedly bring about a reduction in the nation's fire waste."

Marine Insurance.—The origin of marine insurance is somewhat obscure, but it is highly probable that it developed from the practise in vogue in very early times of advancing loans on a ship or her cargo. If the ship reached her destination safely, the loan was repaid with interest, but if the ship was lost the lender lost his money.

The rule regarding those who have a right to insure a vessel or her cargo is the same as that which applies to property on land. Only those may do so who have an insurable interest, which signifies that in the event of the ship's loss the said persons will suffer pecuniary loss. However, it is not essential that the interest should exist at the time the insurance is taken out, provided it exists at the time the risk commences. Marine insurance may also be extended so as to protect the insured against loss on inland waters, or on a land risk, subsidiary or incident to a sea voyage.

Marine insurance contracts are void when the property concerned is being used in the furtherance of an adventure which is contrary to the laws of the country in which the insurance is effected; and if such is the case and it can be proved that there was an intent to violate such law, even if the vessel is captured before an opportunity to perform any illegal act had arisen, no insurance is collectable.

The laws of a foreign country have no bearing upon the insurance contract, although this state of affairs is condemned by many eminent authorities.

When a marine insurance policy covers losses from all risks, it does not necessarily mean that a loss resulting from the fraudulent act or misconduct of the insured is included.

The usual risks encountered at sea are fire, enemies, pirates, thieves, jettisons, or the throwing overboard of cargo to lighten the ship, fraudulent and illegal acts of the master or mariners, and the damage due to storms or natural causes. This last is commonly termed "perils of

the sea" and includes all casualties that may result from the violent action of the elements, but in order that the insurer may be held liable for losses from this cause the condition of the ship must be such as is termed seaworthy. Damage by collision is considered a peril of the sea, even though the collision might be due to gross negligence on the part of the insured.

A marine insurance policy usually contains the clause, "and all other perils, losses, and misfortunes that have or shall come to the hurt, detriment, or damage of the aforesaid," and provides for damages such as may be sustained in dock and from a variety of causes.

Marine policies are like fire policies in the respect that they may be either "open" or "valued," and governed by the same principles which have already been noted in the preceding pages.

Accident Insurance.—Accident insurance is very similar to and depends upon the same principles as the forms of insurance already treated. It is, however, applied to a particular class of risks, viz., the loss of life, or personal injury by accident.

The value of a hand, or foot, or a person's life can not be determined with the same degree of exactitude as property which has been destroyed by fire, but an amount satisfactory to the persons concerned may be agreed upon, and the policy prevented from degenerating into one of the wager class.

Originally, accident policies were confined to the indemnification of persons for loss resulting from an accident to themselves personally, but their function has since been extended so that a person may be protected against losses resulting from accidents to persons in whom he may have an insurable interest.

An ordinary form of accident policy provides for the payment of a certain sum per week to the injured person for a period of twenty-six weeks, and a certain sum on death, provided the injury should prove fatal within ninety days after the accident.

Specific sums are also paid in the event of the loss of

certain members of the body, as one or both feet, hands, or eyes, etc.

Fidelity and Guaranty Insurance.—Fidelity and guaranty insurance is the means frequently employed by an employer to protect himself from loss caused by the negligence or dishonesty of his employees.

It might be supposed that, when protected in this manner, an employer might be indifferent to the character of his employees and the consequences to his customers, but it is expressly stipulated in such contracts that the employer use due discretion in engaging employees, so that the risk of loss from their dishonesty may be minimized. Policies of a similar character are frequently issued guaranteeing against loss from the non-completion of a contract at the time appointed. This might be concerned with the completion of work, the payment of rents, or the prompt payment of a promissory note.

Other Forms.—Credit insurance, or the indemnifying against bad debts, has been dealt with under the head of *Credits*. Similarly, Title insurance, protecting the title of a holding in real estate, has been considered under *Real Estate*. Both of these chapters may be found in volume three.

Other forms of insurance, deriving their name from the character of the property or article involved, are steam-boiler insurance, plate-glass insurance, cyclone insurance, lightning insurance, etc., and none presents any peculiar or additional features other than its name would suggest.